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THE REPORT

of the

GOVERNOR'S TASK FORCE

on

PEABODY

Members of the Governor's Task Force on Peabody Institute

The Honorable Melvin A. Steinberg
Chairman
Mr. James T. Cavanaugh, III
Mr. Leslie B. Disharoon
Mr. Willard Hackerman
Mr. Reg Murphy
Mr. J. Stevenson Peck
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Oversight Committee

The Honorable Melvin A. Steinberg
Chairman
The Honorable Charles L. Benton
Secretary
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STATE OF MARYLAND
OFFICE OF
THE LIEUTENANT GOVERNOR

MELVIN A. STEINBERG
LT. GOVERNOR

December, 1989

The Honorable William Donald Schaefer
Governor, State of Maryland
State House
Annapolis, MD 21401

Dear Governor Schaefer:

On behalf of the members of your Task Force and myself, I would personally like to thank you for your immediately response to the serious situation facing the Peabody Institute. Your initiation of the Task Force on the Peabody has allowed us to fully examine the nature and extent of this historic institution's problems. In response, we have developed a comprehensive plan, that if implemented, will ensure the continued operation of the Peabody as a world renowned music conservatory and will lead to its becoming financially self-sufficient. Therefore, as Chairman of the Governor's Task Force on the Peabody, I respectfully transmit the report of our findings to you.

Preliminarily, I feel it appropriate to reiterate the mission of the Task Force and how the problem was approached. The Task Force was charged with studying and addressing the immediate problem of Peabody's operating deficit for FY 1990 and to develop a strategy to address the long term financial problem.

The Task Force began its work by reviewing every aspect of Peabody's operation. Information was compiled regarding Peabody's finances, administration, programs, assets, as well as its operating relationship, responsibilities and status with Johns Hopkins University.

While the Task Force identified many areas for Peabody and Hopkins to review for the purposes of reducing the operating deficit, our goal was to significantly reduce cost while maintaining a program of academic and artistic excellence.

The Task Force proposed that Peabody and The Johns Hopkins University engage the services of independent consultants whose responsibility would be to conduct a comprehensive analysis of the Peabody academic programs and its management operation. An Oversight Committee was formed with members from the Boards of both Peabody and Hopkins as well as Task Force members whose job was to work with the consultants.

The Task Force's assignment has been a difficult one but the findings, conclusions and recommendations made herein are unanimous on the part of the voting members. This report is the culmination of nearly a year of intense study and analysis of every aspect of the Peabody.

What the Task Force found was both encouraging and troubling. On the one hand, the Task Force found an institution rich in tradition and history, a focal and cultural center of performing artists for the State and the metropolitan Baltimore area, and an institution recognized internationally as a world class music conservatory. On the other hand, the Task Force found that Peabody is similar to peer institutions because of the unique nature of its type of instruction and therefore will always operate with a deficit. Unlike institutions such as Juilliard, Curtis and Eastman, which have endowments of $80 million to $165 million, which provide sufficient revenues to offset these deficits, Peabody's endowment is approximately $10 million. The resolution of the problem of Peabody's endowment is the crux of the Task Force's long range plan and is detailed at the end of this report.

On a personal note, I would like to take this opportunity to extend my heartfelt thanks to the members of the Task Force for their commitment and dedication to the responsibility conferred on them. The members all gave generously of their time to study the pressing problems facing the Peabody. The members, all possessing a great deal of experience, insight and business acumen, approached their charge with objectivity and open minds. Without their hard work and perseverance, this task would not have been accomplished.

I would like to express a special note of thanks to the members of the Oversight Committee. Because much of the information needed by the Task Force to fully understand the workings of the Peabody/JHU was technical, we sought the expertise of members of the Boards of Trustees from those institutions. These individuals willingly gave their valuable time and expertise to assist the Task Force in providing the necessary information to prepare this report. Without their help this comprehensive study could not have been completed.

My colleagues and I are genuinely grateful to you for the opportunity extended to us in undertaking so worthwhile and challenging a task.

Sincerely,

Melvin A. Steinberg
Lieutenant Governor

MAS:jw

I. BACKGROUND

The Peabody Institute

The Peabody Institute was established in Baltimore in 1857 by George Peabody. The purpose of the institute was for "the improvement of the moral and intellectual culture of the inhabitants of Baltimore, and collaterally to those of the State; and, also, towards the enlargement and diffusion of a taste for the Fine Arts." As a result of his gift, a conservatory of music, library, and an art collection were established. In 1894, the Peabody Preparatory was founded. The goal of the Peabody was to provide gifted artists with a musical education of the highest quality at the Conservatory as well as to promote appreciation and understanding of the arts among the public through the Preparatory.

The Peabody Conservatory has long been considered one of the distinguished music college conservatories in this country in a class with Curtis, Eastman, Juilliard and the New England Conservatory. A conservatory trains professional performing musicians. Its graduates are composers, conductors, opera singers, symphonic musicians who are active in the academic world, film, television and theater.

The Peabody is the foundation of Baltimore and the State's musical life. There is scarcely a musical organization or a professional concert in the Baltimore Metropolitan area that does not draw upon graduates of the Peabody. The importance of the Peabody's contribution to the cultural life and the enhancement to the quality of life in the State and the Baltimore Metropolitan area cannot be underscored enough. To lose this treasure would be one of our State's greatest tragedies.

II. THE PROBLEM

During the mid-1960's and continuing through the next decade, the vitality of the Peabody, as well as most of the private conservatories, was jeopardized by the emergence of public sector music programs. The administrations of these institutions failed to recognize the impact of the growing competition and paid little attention to the details of administering, developing, and more importantly, sustaining the institutions. In the case of the Peabody, the financial problems actually began in the 1940's when the Institute's income failed to keep pace with rising costs and Peabody used its endowment corpus to fund its operating budget deficits. As a result of continued financial difficulties, the Peabody transferred the library collection to the Enoch Pratt Free Library in 1966. In 1982, the Pratt Library transferred the library collection to Johns Hopkins University.

As a result of these growing financial difficulties and declining enrollments, the Peabody entered into "an agreement of affiliation," with Johns Hopkins University effective July, 1977. A key element of the affiliation was the stated understanding that both institutions would maintain separate corporate identities, although four of the Peabody trustees would also serve on the Johns Hopkins board. The agreement called Hopkins to perform certain administrative services for Peabody and provide it with managerial and fund-raising expertise. In 1986 Peabody and Hopkins officially merged so that today Peabody is a division of the Johns Hopkins University. When the merger occurred, Hopkins assumed all the liabilities of Peabody and the land and buildings of the Peabody were conveyed to Hopkins becoming general assets of the University. However, the Peabody art collection and endowment remained separate and are owned by an entity known as the Peabody Institute of the City of Baltimore.

In 1979, Peabody and Hopkins sought a $12 million State loan for 12 years. The intention was to invest $10 million and use the interest to support the Peabody. However, the State provided for a $900,000 annual appropriation beginning in FY 1981 to continue for 12 years, which would represent the interest Peabody would have realized from a $10 million investment. At the time this agreement was made, Peabody was running an operating budget deficit of about $1 million a year. The plan was that Peabody would raise an endowment of $12 million during the 12 year period of added State support and the interest from the endowment would allow the institution to maintain a balanced operating budget.

The State initially required that Peabody raise $1 million a year in cash or term pledges (to mature no later than December 31, 1991) before the State would provide its $900,000 appropriation. In 1987, the Legislature increased the matching requirement for the receipt of State funds from $1 million to $1,450,000 in order for Peabody to generate a larger endowment at the end of the 12 year period and an improved chance at self-sufficiency. However, it is now apparent that the past efforts of the State and Johns Hopkins University have proven inadequate to meet the full needs of the Conservatory. At this point in time, Johns Hopkins believes that it is unable to continue to assume a large escalating deficit.

The annual deficit, after tuition and other revenues (including the State's $900,000 operating grant), is $2.8 million for FY 89 and will be $3.7 million in FY 90. Hopkins is funding the FY 89 deficit. By 1993, the annual deficit is projected to be over $5 million after the phase out of the State grant in 1990 and the expected elimination of the subsidies from Hopkins by the end of 1993.

The history of the Johns Hopkins University subsidy is as follows:

1981	$ 925,000
1982	1,359,000
1983	1,206,000
1984	1,185,000
1985	1,081,000
1986	1,075,000
1987	1,140,000
1988	2,385,000
1989	2,770,000

In aggregate, Johns Hopkins University has provided in excess of $20 million.

In order to place the Peabody in a stable financial condition, to maintain its individuality, and to build its reputation and prestige in the international music community, it is estimated that the Peabody will need an endowment of at least $80 million.

III. THE GOVERNOR'S TASK FORCE ON PEABODY

As a result of Peabody's current and projected deficit problems, coupled with Hopkins' decision to discontinue further subsidies by 1993, Governor Schaefer appointed a Task Force on the Peabody chaired by Lieutenant Governor Melvin A. Steinberg, to study and address the immediate financial situation and also, to develop a long-range plan that would stabilize Peabody's financial position.

The Task Force gathered detailed information regarding Peabody's finances, administration, programs, assets, as well as its status, operating relationship and financial responsibilities with Johns Hopkins University.

The Task Force identified many areas for Peabody and Hopkins to review for the purpose of reducing the operating deficit. The Task Force's goal, however, was to develop a plan to significantly reduce costs while *maintaining a program of academic and artistic excellence.*

The Task Force proposed that Peabody and Johns Hopkins University engage the services of independent consultants whose responsibility would be to conduct a comprehensive analysis of the Peabody program and its operations.

The Peabody and Johns Hopkins, with the approval of the Task Force, retained the services of Dr. Joseph Polisi, President, The Juilliard School of Music, and Mr. C. Patrick Deering, Chairman and C.E.O. of Riggs, Counselman, Michaels & Downs, Inc.

Because the information needed by the consultants was technical in nature and had to be secured from both the Peabody and Hopkins, the Task Force formed an Oversight Committee. The Task Force selected six people, two each from the Board of Trustees of Hopkins and the Advisory Council of the Peabody and Lt. Governor Melvin A. Steinberg and Secretary Charles Benton from the Task Force to work with the consultants.

The Oversight Committee met with the consultants to outline the issues to be addressed in their analysis with the goal of their study being the maintenance of a program of academic and artistic excellence.

IV. CONSULTANTS' STUDY

The consultants' study addressed the following tasks:

1. Review and evaluate all Peabody educational programs (including the Preparatory program).

   This includes the development and collection of statistical and other data related to faculty/student ratios and enrollment. This data was compared with the traditional courses of study generally offered at schools of comparable academic and artistic excellence in the United States.

   This review also included evaluating the specific programs such as the doctoral, opera, music criticism programs, etc., in reference to need and cost.

2. Review and evaluate all current staffing and compensation levels for academic and support positions.

   Evaluate the need and cost effectiveness of using out-of-state faculty.

   Document the administrative support functions performed by Hopkins for the Peabody.

   Interview administrative and management personnel at both Hopkins and Peabody to gain an understanding of various functions and interrelations and identify areas of duplication and determine potential cost savings relating to the elimination of duplicate functions.

   Prepare a summary analysis of the cost benefit of each component of the Hopkins administrative charge to Peabody.

   Prepare a summary of recommendations as to which functions should be the sole responsibility of either Hopkins or Peabody personnel and document those functions which should be shared by the two entities.

3. Review and assess Peabody's auxiliary enterprise programs, specifically:

   —Housing
   —Food Service
   —Garage
   —Book Store

   Interview key personnel responsibilities for the management and administration of each program.

   Review and evaluate program cost data and identify cost-effective opportunities or alternative arrangements.

   Determine the profitability of each program and explore opportunities to enhance revenues, reduce subsidies and evaluate alternatives.

   Prepare a summary of recommendations to enhance both the quality of service and revenue potential of each program.

4. Review and assess Peabody's tuition and scholarship assistance programs for the 1989-90 academic year.

   Reference such programs to selected highly regarded schools of music in the United States.

5. Review the current contracts with Dome Corporation which provides Peabody with maintenance, housekeeping and security services.

   Assess the adequacy and reasonableness of the contract conditions, terms and costs in relation to the quality of service.

   Investigate and determine if other vendors in the Baltimore area provide similar services and evaluate the cost and quality of such alternative services.

   Prepare a summary of recommendations with respect to such services.

6. Visit and inspect Peabody's Preparatory facilities at Goucher College.

   Visit and inspect the series of buildings known as "Schapiro Row" running south on Charles Street from Mount Vernon Place.

   Assess only the appropriateness of these facilities in support of Peabody's primary function as a school of music.

   Identify and document major maintenance costs which might be anticipated over the next 5 years.

   Explore the disposition of any such facility as a means of significantly raising funds for Peabody's operations. Assess the adverse financial consequences to Peabody's music mission resulting from such dispositions.

   The consultants will express their views on the possibility of disposing of Peabody's art collection. However, it is understood that the consultants are not able to deal with the questions of legality, public reaction, etc.

7. Review the efficacy and scope of the current Peabody program.

   Evaluate and prepare comparative scenarios of varied enrollment levels.

V. SUMMARY OF CONSULTANT FINDINGS

The following is a brief summary of the consultants' reported findings:

	Revenue Enhancements Cost Reductions (Additional Costs)
TASK ONE—PEABODY'S EDUCATIONAL PROGRAMS	
—Peabody's current artistic and educational programs are of high quality and supported by a distinguished and dedicated faculty interacting with a talented student body.	
—The vast majority of the courses offered are appropriately enrolled with undergraduate or graduate students. The Doctor of Musical Arts program is cost effective and provides most of the graduate assistants who teach at the institute.	
—Cost savings can be realized through a careful analysis of current and future student enrollments, faculty compensation levels, and specific programmatic contributions to the overall Peabody program.	
PROJECTED COST REDUCTIONS	$ 100,000

TASK TWO—PEABODY'S CURRENT STAFFING AND COMPENSATION LEVELS/POTENTIAL PEABODY/HOPKINS DUPLICATION OF EFFORT

—Compensation for Peabody's faculty reflects salary levels consistent with schools of music within major universities in the United States. Funds spent to support travel and lodging for visiting faculty are higher than those found at comparative institutions on the East Coast.

PROJECTED COST REDUCTIONS $ 30,000

—Peabody receives support from Hopkins in the areas of Development/Public Relations, shuttle bus, mailing, personnel/payroll, facilities management, central purchasing, publication, and administrative/overhead.

—Although duplications of services are rare in these areas, opportunities exist for cost savings through administration reorganization of certain activities.

PROJECTED COST REDUCTIONS $ 198,000

TASK THREE—PEABODY'S AUXILIARY ENTERPRISE PROGRAMS

—These programs exist in the areas of student housing, cafeteria, bookstore, and garage.

—The dormitory requires extensive capital improvements. Through adjustments in existing residence hall programs, increased revenues and occupancies may be realized.

—Through new pricing policies and adjustments in parking regulations for staff and faculty, increased revenues may be realized in the operation of the garage.

—No substantive opportunities exist for increased efficiencies or revenue enhancements in the bookstore.

PROJECTED REVENUE ENHANCEMENT $ 135,000

TASK FOUR—PEABODY'S TUITION AND SCHOLARSHIP ASSISTANCE PROGRAM

—Peabody's 1989-90 tuition ranks in the upper half of private and public schools of music polled for this study.

—Peabody's scholarship/tuition revenue ratio is high for an institution with an endowment for approximately $10 million.

—In order to rectify this imbalance, Peabody must increase endowment and annual giving for scholarship support and moderate or contain future increases in financial assistance.

PROJECTED REVENUE ENHANCEMENT/COST REDUCTIONS
(Not Feasible to Quantify)

TASK FIVE—SERVICES PROVIDED PEABODY BY THE DOME CORPORATION

—The Dome Corporation provides maintenance, housekeeping, and security services to Peabody.

—Both the cost and quality of services provided are satisfactory.

—No cost reductions appear feasible in this area.

PROJECTED REVENUE ENHANCEMENT/COST REDUCTIONS $0

TASK SIX—PEABODY'S FACILITIES AND COLLECTION OF FINE ARTS

—Areas where revenue enhancement may be generated related to the disposition of the Goucher Property Leasehold Interest and the Peabody Collection of Fine Art.

PROJECTED REVENUE ENHANCEMENT $1,190,000

—Peabody will need to address $5,692,000 worth of major maintenance programs during the period 1990-95, of which $1,880,000 are required or essential.

PROJECTED AVERAGE ANNUAL ADDITIONAL COST TO IMPLEMENT PROGRAM	$ (370,000)
ADDITIONAL DEBT SERVICE REQUIRED ON NEW ACADEMIC BUILDING	$ (390,000)

—Arrangements with a private developer to bring "Washington Place Townhouses" up to occupancy standards should be explored.

PROJECTED REVENUE ENHANCEMENT	$0

TASK SEVEN—EFFICACY AND SCOPE OF THE CURRENT PEABODY PROGRAM

—Currently, Peabody operates at an optimum student enrollment of approximately 430.

—A detailed analysis of a smaller enrollment of about 360 students indicates no significant decrease in proportional costs or a positive effect on artistic or educational program.

PROJECTED REVENUE ENHANCEMENT/SAVINGS	None
TOTAL COST REDUCTIONS	$ 328,000
TOTAL REVENUE ENHANCEMENTS	1,325,000
TOTAL ADDITIONAL COSTS	(760,000)
TOTAL	$ 893,000

VI. THE TASK FORCES FINDINGS, CONCLUSIONS AND RECOMMENDED PLAN OF ACTION

At the conclusion of its study, the Task Force found the Peabody Institute to be a world class music conservatory rated among the top five music institutions in the United States. The Peabody current artistic and educational programs are of the highest quality, supported by a distinguished and dedicated faculty interacting with a highly talented student body.

The Peabody is a tremendous treasure to Maryland, providing metropolitan Baltimore and the State with a core of distinguished performing artists and musicians who greatly enhance our culture and quality of life. This institution is a fine complement to and adds to the prestige of an already prestigious Maryland institution, the Johns Hopkins University. Because separating the Peabody from Hopkins would be counterproductive to both institutions this concept was rejected by the Task Force.

Notwithstanding the above comments, the Peabody Institute, is in the midst of a severe financial situation. Like other music conservatories of its caliber, Peabody's course of study is performance oriented. Such one-on-one instruction is very expensive. None of the top music conservatories in this country that were reviewed by the Task Force operated with a break even budget. They all operate with operating budget deficits. However, as stated in the beginning of this report, these institutions have endowments that range from $80 million to over $165 million, which generate enough revenue to offset these operating deficits. In comparison, Peabody's endowment is approximately $10 million which is substantially below what is needed to offset its unfunded annual operating deficit.

There are, as identified by the consultants' report, several cost-saving measures, revenue enhancements and cost-reductions that the Peabody can implement to reduce this deficit. The long-term salvation of the Peabody, however, is dependent upon increasing the endowment to approximately $80 million within a time certain.

After a thorough analysis and review of the Peabody, it is the unanimous conclusion of the Task Force voting membership, that every effort should be made to save the Peabody Institute and ensure that its present academic status is maintained and its affiliation with the Johns Hopkins University is continued. To allow an institution of its caliber, importance and cultural significance to perish would be an irreparable loss to the people and the State of Maryland.

To rescue the Peabody will require the full commitment of the State's Executive and Legislative branches, the Johns Hopkins University and Peabody Institute and the private sector. The Task Force's proposed plan of action is predicated on each party's pledge to perform their part in this compact. Anything less will not properly address the underlying financial problem and may result in the demise of this priceless cultural institution.

The plan is both intricate and fragile but will resolve the short and long term financial situation of the Peabody. It is therefore the recommendation of the Task Force that the following plan of action be adopted if the Peabody Institute is to continue operations as a premier music conservatory.

PLAN OF ACTION

1. The State will purchase the Peabody art collection in FY 1991 for an amount not to exceed $15 million or the appraised value, whichever is less. These funds are to be placed in the Peabody Endowment Fund. The principal may not be used for operating costs.
2. The State will provide $5 million in FY 1991 to Peabody to defray operating budget deficits anticipated over the next 5 years. Disbursement of these funds shall be subject to the approval of the Oversight Committee (as established per Item 7 below). These funds could be used to offset a part of the FY 1990 deficit.
3. The State will continue the $900,000 grant, which is scheduled to expire at the end of FY 1991, through FY 1995. This grant should include a cost of living adjustment not to exceed ten percent (10%) in any given year, for years 1 through 5.
4. The State's financial commitments for FY 1991 (a total of $20,945,000) are contingent on Peabody/JHU's successfully raising $15 million in bona fide pledges from the private sector by July 1, 1990. All funds must be placed in the Peabody Endowment Fund. The principal may not be used for operating costs.
5. Peabody will provide a plan for implementation of all of the consultants' cost reduction and revenue enhancement recommendations by July 1, 1990, to the Oversight Committee.
6. An additional fund-raising effort for the Peabody will be initiated by Peabody/JHU by FY 1996 with a goal of raising $30 million in private donations to be placed in the Peabody Endowment. As an incentive to facilitate this fund-raising effort, the State grant (see Item 3) shall continue after FY 1995, however, the amount shall not exceed one-half the annual unfunded operating deficit of the Peabody.
7. An Oversight Committee shall be established to monitor and ensure compliance with all State conditions. The Committee will include representatives from Peabody, the Johns Hopkins University, and the Executive and Legislative branches of State government. The Task Force recommends that the Oversight Committee, at a minimum, hold quarterly meetings and provide an annual certification to the Governor and Legislature that all conditions of the plan are being met. This report should be due January 1 of each year. The Task Force also recommends that the Oversight Committee become prospectively involved with the endowment investments to assure that proper returns on these investments are being realized. These responsibilities, as well as any additional charge desired by the Executive or Legislative branch, are necessary to ensure that the plan is implemented as intended.
8. In the event Peabody terminates operations as a music conservatory, the State will relinquish the art collection to Peabody and the $15 million will be returned to the State from the Peabody endowment.
9. The Johns Hopkins University will continue to fund the operating deficits of the Peabody. However, in FY 1996, if all previous conditions are met, the State grant shall continue in an amount not to exceed one-half the annual unfunded operating deficit. (See Item 6).

APPENDICES

Explanation

Appendix A is a summary of the financial plan for the Peabody which extends to the year 2000. This plan assumes full implementation of all elements of the Task Force's Plan of Action.

Appendix B is the full text of the consultants' report.

APPENDIX A

Peabody Institute

	Actual 1985	Actual 1986	Actual 1987	Actual 1988	Budget 1989	Budget 1990	Proj. 1991	Proj. 1992	Proj. 1993	Proj. 1994	Proj. 1995	Proj. 1996	Proj. 1997	Proj. 1998	Proj. 1999	Proj. 2000
Revenues[1,5,9,12]	5,057	5,788	6,460	6,474	7,239	7,390	7,806	8,621	9,162	9,793	10,422	11,269	12,137	13,078	14,104	15,214
Expenditures[2,6,7,10,13]	7,038	7,763	8,495	9,756	10,907	11,974	13,100	13,728	14,385	15,079	15,283	15,982	16,946	17,968	19,052	20,202
Surplus (Deficit)	(1,981)	(1,975)	(2,035)	(3,282)	(3,668)	(4,584)	(5,294)	(5,107)	(5,223)	(5,286)	(4,861)	(4,713)	(4,809)	(4,890)	(4,948)	(4,988)
(Less) State Grant	900	900	900	900	900	900	—	—	—	—	—	—	—	—	—	—
JHU Support	1,081	1,075	1,135	2,382	2,768	—	—	—	—	—	—	—	—	—	—	—
Cost of Components to Offset Deficits	—	—	—	—	—	4,584	5,294	5,107	5,223	5,286	4,861	4,713	4,809	4,890	4,948	4,988
State Grant (Continuation)[15]	—	—	—	—	—	—	945	992	1,042	1,094	1,149	1,021	859	690	509	319
State Art Purchase $15M[11]	—	—	—	—	—	—	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050
Matching Program $15M	—	—	—	—	—	—	210	420	630	840	1,050	1,050	1,050	1,050	1,050	1,050
Campaign $30M[8]	—	—	—	—	—	—	—	—	—	—	—	420	840	1,260	1,680	2,100
Townhouse Sale $640K[3]	—	—	—	—	—	—	45	45	45	45	45	45	45	45	45	45
Towson Sale $1.5M[4]	—	—	—	—	—	—	—	105	105	105	105	105	105	105	105	105
State Bridge Grant[14]	—	—	—	—	—	—	1,000	1,280	1,210	1,140	1,070	—	—	—	—	—
Surplus (Deficit)	—	—	—	—	—	(3,684)	(2,044)	(1,215)	(1,141)	(1,012)	(392)	(1,022)	(860)	(690)	(509)	(319)

NOTES ON PROJECTIONS

[1]Includes State aid to private institutions; for Peabody this amounts to $428,000 in 1990 and increased 7% annually thereafter.

- —Growth in Endowment of 2% annually, through investment.
- —$30,000 in additional parking revenues due to having staff cover 30% of cost of parking.

[2]Includes: Reducing Student Aid as a % of total tuition from 50% to 40% produces annual savings of $92,000 in 1991 Increasing to $600,000 and leveling off by 1995.

- —While the report on Peabody contained nearly $300,000 of estimated savings due to Administrative restructuring, this amount is not included in the projections. Should any or all of the administrative changes be implemented, the resultant savings would further decrease the projected deficit.
- —Faculty travel is reduced by $30,000 annually.

[3]Assumes sale of townhouses to an investor who will offer to Peabody the option to repurchase or use all or a portion of the renovated facilities at some future time. The sale price would be a minimum of $645,000 to be placed into Endowment, earning 7% annual income; 2% annual growth.

[4]Assumes Peabody sells Leasehold interest @ $1,500,000 and places proceeds into the Peabody Endowment. (Also Peabody will need virtually rent free space elsewhere to operate its Prep Program, i.e., Towson State.)

[5]Revenues are adjusted to show 2% growth in all Endowment categories.

[6]In 1996 Student Aid (which was decreased from 50% to 40% over a 5-year period) will begin to increase by $120,000 annually.

[7]In 1996 deferred maintenance of $350,000 annually from 1991-1995 can be reduced to $100,000 annually.

[8]A major fund raising campaign of $30M with $6M in cash annually from 1996 to 2000 will increase the Peabody Endowment from approximately $50M in 1995 to nearly $88M by the year 2000. An endowment of $88M will eliminate the need for continued State support beyond the year 2000. (Assuming all the stated assumptions are achieved.)

[9]Beginning in FY 1996 Conservatory enrollment will begin to increase by 2% annually, reversing the trend projected from FY 1991-1995.

[10]Expenditure reductions of $500,000 will be implemented in 1995, with the effect of reducing expenditures by $638,000 in FY 2000. This will be accomplished by following the reductions recommended in the consultant's report and further economies in program and faculty.

[11]Assumes the State purchase of the Art is received in a lump sum in July, 1990.

[12]Includes State aid under formula for private colleges.

[13]Includes operating and debt service for new building for FY 1991-1995.

[14]Assumes $5M is received in lump sum in July, 1990, for operating costs.

[15]Assumes annual inflation adjustment of 5% through FY 1995; for FYs 1996-2000 grant is not to exceed ½ of the unfunded deficit.

APPENDIX B

PEABODY STUDY

OCTOBER, 1989

AUTHORS

L. PATRICK DEERING — DR. JOSEPH W. POLISI

PEABODY STUDY
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PEABODY STUDY
EXECUTIVE SUMMARY

This report is divided into seven sections responding to the questions posed by Lieutenant Governor Melvin A. Steinberg and the members of the Peabody Oversight Committee. The overall purpose of this study is to develop a plan to significantly control costs while maintaining a program of academic and artistic excellence at The Peabody Institute of The Johns Hopkins University.

	Revenue Enhancements Costs Reductions (Additional (Costs)
TASK ONE PEABODY'S EDUCATIONAL PROGRAMS	
• Peabody's current artistic and educational programs are of high quality, supported by a distinguished and dedicated faculty interacting with a talented student body.	
• The vast majority of the courses offered are appropriately enrolled with undergraduate or graduate students. The Doctor of Musical Arts program is cost effective and provides most of the graduate assistants who teach at the institute.	
• Cost savings can be realized through a careful analysis of current and future student enrollments, faculty compensation levels, and specific programmatic contributions to the overall Peabody program.	
PROJECTED COST REDUCTIONS	$100,000
TASK TWO PEABODY'S CURRENT STAFFING AND COMPENSATION LEVELS/POTENTIAL PEABODY/HOPKINS DUPLICATION OF EFFORT	
• Compensation for Peabody faculty reflects salary levels consistent with schools of music within major universities in the United States. Funds spent to support travel and lodging for visiting faculty are higher than those found at comparative institutions on the East Coast.	
PROJECTED COST REDUCTIONS	$ 30,000

- Peabody receives support from Hopkins in the areas of Development/Public Relations, shuttle bus, mailing, personnel/payroll, facilities management, central purchasing, publications, and administrative/overhead.

- Although duplications of services are rare in these areas, opportunities exist for cost savings through administration reorganization of certain activities.

PROJECTED COST REDUCTIONS $198,000

TASK THREE PEABODY'S AUXILIARY ENTERPRISE PROGRAMS

- These programs exist in the areas of student housing, cafeteria, book store, and garage.

- The dormitory requires extensive capital improvements. Through adjustments in existing residence hall programs, increased revenues and occupancies may be realized.

- Revenue enhancement opportunities exist in the cafeteria, although on a minimal level.

- Through new pricing policies and adjustments in parking regulations for staff and faculty, increased revenues may be realized in the operation of the garage.

- No substantive opportunities exist for increased efficiencies or revenue enhancements in the book store.

PROJECTED REVENUE ENHANCEMENT $135,000

TASK FOUR PEABODY'S TUITION AND SCHOLARSHIP ASSISTANCE PROGRAMS

- Peabody's 1989-1990 tuition ranks in the upper half of private and public schools of music polled for this study.

- Peabody's scholarship/tuition revenue ratio is high for an institution with an endowment of approximately $10 million.

- In order to rectify this imbalance, Peabody must increase endowment and annual giving for scholarship support and moderate or contain future increases in financial assistance.

PROJECTED REVENUE ENHANCEMENT/ COST REDUCTIONS Not Feasible to Quantify

TASK FIVE <u>SERVICES PROVIDED PEABODY BY THE DOME CORPORATION</u>

- The Dome Corporation provides maintenance, housekeeping, and security services to Peabody.
- Both the cost and quality of services provided are satisfactory.
- No cost reductions appear feasible in this area.

PROJECTED REVENUE ENHANCEMENT/ COST REDUCTIONS	NONE

TASK SIX <u>PEABODY'S FACILITIES AND COLLECTION OF FINE ARTS</u>

- Areas where revenue enhancement may be generated relate to the disposition of the Goucher Property Leasehold Interest and the Peabody Collection of Fine Art.

PROJECTED REVENUE ENHANCEMENT	$1,190,000

- Peabody will need to address $5,692,000 worth of major maintenance programs during the period 1990-1995, of which $1,880,000 are required or essential.
- PROJECTED AVERAGE ANNUAL ADDITIONAL COST TO IMPLEMENT PROGRAM — $ (370,000)
- ADDITIONAL DEBT SERVICE REQUIRED ON NEW ACADEMIC BUILDING — $ (390,000)
- Arrangements with a private developer to bring "Washington Place Townhouses" up to occupancy standards should be explored.

PROJECTED REVENUE ENHANCEMENT	NONE

TASK SEVEN <u>EFFICACY AND SCOPE OF THE CURRENT PEABODY PROGRAM</u>

- Currently, Peabody operates at an optimum student enrollment of approximately 430.
- A detailed analysis of a smaller Peabody of about 360 students indicates no significant decrease in proportional costs or a positive effect on artistic or educational programs.

PROJECTED REVENUE ENHANCEMENT/SAVINGS	NONE

TOTAL COST REDUCTIONS	$ 328,000
TOTAL REVENUE ENHANCEMENTS	1,325,000
TOTAL ADDITIONAL COSTS	(760,000)
TOTAL	$ 893,000

* * * * *

In order to maintain its great heritage, Peabody must overcome serious obstacles that have strained the institution financially. The loss of the Peabody Institute within the community of top-quality American music schools would be a major setback for Baltimore, the State of Maryland, and the performing arts in the United States today.

INTRODUCTION

Professional music instruction in the United States has as its foundation the great tradition of music education which flourished in Europe in the nineteenth century. This tradition was based on assembling an excellent faculty who would work with a highly selective student body in the re-creation and interpretation of the great monuments of Western art music.

The Peabody Institute of the Johns Hopkins University positively reflects the basic values which were formed in the educational tradition of the last century. Peabody and its sister institutions in the United States have embellished on that tradition to create a new form of arts education which ranks as, most probably, the finest system of music education in any country in the world today.

After World War II there was a proliferation of schools of music around the country dedicated to educating and training performing musicians based on the European conservatory tradition. Although this system of education was instituted in many colleges and universities, independent conservatories tended to remain as the primary source of most professional musicians in America during the first decade after the war.

This situation changed dramatically in the 1960's and early 1970's when many American independent conservatories either ceased to exist or were merged with universities within geographical proximity to the conservatory. The reasons for these mergers were varied but, for the most part, the primary impetus for the change was financial.

As a result, Peabody currently exists within a field in which the European conservatory-type education is found in state universities (Indiana University School of Music, The University of Michigan School of Music, etc.), private universities (The Eastman School of the University of Rochester, the Yale University School of Music, etc.), and independent schools of music (The Juilliard School, The New England Conservatory, the San Francisco Conservatory, etc.). Each institution has adjusted its curriculum to represent the needs of that school. Certain schools of music (often found within a large university) have created "comprehensive programs" which include not only performance instruction in traditional musical instruments, but also courses of study in musicology and music theory, music education, music criticism and other topics related to the music field in general.

Although each school of music has its own character, one goal which is shared by the top rank of schools offering degree studies preparing students for a potential career as a performing musician (Bachelor of Music (B.M.), Master of Music (M.M.), Doctor of Musical Arts (D.M.A.)) is to provide a course of study which reflects the high standards of the music profession. Private music instruction with distinguished artists/teachers, orchestral, chamber music, opera and solo performance experience with quality conductors and coaches and rigorous courses in the ancillary areas of music theory, ear training, music history and liberal arts are all important and standard elements of a quality music curriculum.

Due to Peabody's long tradition of excellence dating back to the nineteenth century, its highly distinguished alumni body and the excellent reputation of the current Institute faculty, Peabody is certainly considered to be an institution in the top rank of schools of music in the United States. Its impact as the primary institution of its type for much of the southern portion of the United States should also be emphasized. Several members of the Peabody faculty are universally considered as leaders in their respective fields, and its alumni are active internationally as performers, teachers and administrators. Peabody's comprehensive program of professional music education is unique and is not duplicated by programs at other institutions of higher learning in the State of Maryland. Above all, the tradition that Peabody has established since 1857 cannot easily be re-created by another institution. The loss of the Peabody Institute within the community of top-quality music schools in America would be a major setback for Baltimore, the State of Maryland, and the performing arts in the United States today.

Since the beginning of its cooperative arrangement with the Johns Hopkins University in 1977, the Peabody Institute has been permitted, through generous Hopkins support, to upgrade faculty salaries and student scholarship assistance, undertake the renovation and enlargement of the Peabody physical plant and generally improve the artistic and educational life of the Institution. These major positive steps were taken, although Peabody's endowment level was well below that which would be necessary if these programs were to continue and flourish in the future.

In order to maintain its cherished heritage as an excellent musical institution, Peabody must overcome serious obstacles that have strained its financial strengths. During the past decade Peabody has incurred significant annual operating losses which have exceeded $20 million. The current projected operating loss is anticipated to approximate $3.7 million. Based on our study we have projected cost reductions and revenue enhancements of $893,000 that hopefully could contribute to a reduction in this deficit.

Peabody will continue to incur a deficit of $2.8 million after the implementation of the above recommendations. (The current principal of the endowment fund, $10 million, will have increased by approximately $16 million resulting from the disposition of the fine art collection and the sale of Goucher property leasehold interest, to approximately $26 million.) Minimum additional endowment funds of $50 million with an average yield of 7% will be required to balance the budget based on current budgetary levels. In addition, a bridge fund of approximately $10 million will be needed to assist in funding the operating deficit pending the deployment of a fully funded endowment program.

The basic goal of this report is to address the major issues which Peabody/Hopkins must resolve if Peabody is to continue as a major institution in the United States dedicated to the education of the next generation of musicians. The authors wish to thank Lt. Governor Melvin A. Steinberg, Secretary Charles L. Benton, and their staffs, the Oversight Committee members, Mr. Robert Levi, Dr. Steven Muller, Mr. George Radcliffe, and Mr. Jacques Schlenger, and Peabody's Director, Mr. Robert Pierce, and his colleagues at Peabody for their assistance in preparing this report. We also acknowledge our appreciation and thanks to the firm of Coopers & Lybrand, which also provided valued data in responding to the issues discussed in the report.

We have attempted to present the most pressing problems facing Peabody in as objective and precise a manner as possible. Often we have presented options or suggestions related to the resolution of certain problems. However, the authors feel strongly that it will only be through a careful process of evaluation and action <u>shared</u> by the State of Maryland, the Johns Hopkins University, the Peabody Institute and members of the community that a long-term solution in support of the continued successful work of the Peabody can be realized.

Task One Peabody's Educational Programs

The courses of study offered by the Peabody Institute of the Johns Hopkins University comply with accreditation standards for schools of music in the United States as determined by the National Association of Schools of Music and various regional accrediting organizations. In addition to the mandated curricula for the Peabody bachelors, masters and doctoral degrees, the institution has created innovative programs in the areas of computer music, music criticism, ensemble arts and early music based, in part, on the strengths of its affiliation with Johns Hopkins.

Peabody's programs are supported by distinguished faculty members who are actively involved in a continuous review of all curricula in an effort to improve the quality of the course offerings. In interviews with several faculty members, the authors found those individuals to have earned highly regarded graduate degrees from respected institutions in the United States and abroad. In addition, the faculty interviewed seemed totally dedicated to their work as teachers, scholars and practicing artists. Many members of the Peabody faculty are regarded as national leaders in their specific disciplines.

In sum, the various educational programs now offered by Peabody are distinctive for the quality of the current faculty, the high standards of musical instruction which reflect well the standards of the profession and the high caliber of the student body which allows Peabody to bring together an international group of young artists who effectively work with their faculty mentors.

In general, enrollment in the Conservatory has remained stable for the past three academic years with an average full-time equivalent enrollment of approximately 432. Discussions with Peabody faculty and administrators indicated that the Institute is currently at an appropriate size for optimum educational and artistic results. Areas of concern for Peabody administrators included comparatively large student populations in flute (21) and piano (116) and small classes in viola (9), double bass (7), harpsichord (2), tuba (1), oboe (5), bassoon (4), chamber music (1), ensemble arts (0), music criticism (2), and music history (1). (All student numbers in parentheses are for the fall term, 1988.) Distribution of majors between undergraduate and graduate levels is almost equal, (i.e., 221 undergraduates and 211 graduate students in 1988-1989). (N.B. Discrepancies related to the exact student enrollment per semester which have surfaced during this study are not inconsistent with record-keeping problems faced by like institutions. Such issues as double majors, extension students or part-time students completing degree requirements and unexpected student withdrawals, all complicate the recordkeeping process. Student statistics are accurate within plus or minus 5 students.)

The following table presents the dollar cost per major student in each department at Peabody's Conservatory level in 1988-1989. (Each figure includes faculty compensation, special classes, travel and "faculty development costs." Institutional overhead, benefits, etc., are not included:)

Dept.	Total Cost Per Major	Dept.	Total Cost Per Major
Double Bass	$ 3,793	Liberal Arts	$ 379
Brass	1,907	Music Education	3,437
Cello	4,708	Music History	588
Chamber Music	2,210	Opera	7,026
Composition	3,603	Organ	3,176
Computer Music	2,016	Percussion	2,737
Conducting	6,782	Piano	4,428
Ear Training	387	Recording Arts	2,778
Early Music	8,530	Music Theory	969
Guitar	2,989	Viola	5,552
Harp	1,600	Violin	4,174
Keyboard Studies	465	Voice	4,333
		Woodwinds	2,389

With a few exceptions which will be addressed below, the cost per major at Peabody is in line with similar costs at like institutions around the country. The per-student costs in cello ($4,708), piano ($4,428), viola ($5,552), violin ($4,174) and voice ($4,333) reflect the higher rates of compensation that are generally paid nationwide to teachers of those instruments.

Three departmental per-student costs are markedly higher than most programs around the country:

1. Conducting. This program enrolled 17 majors in 1988-89 at a cost of $6,782 per conducting student. Since each student conductor usually must work with an orchestra at least once a week during the school year, the cost of assembling a practice orchestra ($35,900 in fiscal year 1989) raises the per student cost of the program. The conductor's orchestra is funded through the financial aid budget -- a typical practice in most institutions. Although 17 is a large enrollment for a high-level conducting program, the faculty member in charge is respected, and a program of this scope will often have a high per-student cost.

2. Early Music. Eight students registered for some phase of early music in the last academic year, but there were only two majors. Total departmental cost was $17,060.

3. Opera. This art form will always cost more to support due to the multi-faceted production requirements of the genre (scenery, costumes, lighting, coachings, etc.). The total program cost of $196,740, to present two full opera productions, plus several workshop presentations per year and various classes, is in line with opera production/educational costs in schools of music around the country. The overruns in this department should be diminished in time through more realistic budgeting.

Music Criticism had only two majors and Ensemble Arts had no majors.

1. Music Criticism. In 1988-89 there were only two majors in this program. Total departmental costs in this area were $69,700, including faculty compensation and assistantship support.

2. Ensemble Arts. There were no declared majors in this area in 1988-89. However, the one faculty member in this department meets with many non-majors through several courses per semester. Total departmental cost was $40,500.

Peabody should develop a plan based on the above findings to implement cost savings by reducing faculty/student ratio imbalances.

The authors were specifically requested to evaluate the cost and effectiveness of the Doctor of Musical Arts (DMA) program at Peabody. The DMA is a doctoral degree emphasizing a high level of musical performance ability as well as scholarly expertise.

The DMA program at Peabody has had many distinguished graduates who have taken their places in various educational and artistic institutions throughout the world. The course of study for this degree is rigorous and demanding.

In opposition to doctoral programs in many other fields, DMA programs around the country generally do not cost sizably more per-student than degree programs on the bachelors or masters levels. This is also the case at Peabody.

The DMA program at Peabody is currently the source of some of Peabody's best students, according to administrators and faculty members. The only course in the Peabody curriculum specifically for DMA candidates is "Graduate Research," taught by a full-time member of the Institute's Music History department as part of his overall course load. All other courses taken by DMA candidates are shared with students enrolled in the Master of Music program. Although academically this does not represent the best of all possible situations, financially the program is not a burden to the School.

Last year there were 33 full-time and 15 part-time students enrolled in the DMA program. DMA students received $224,775 in Peabody financial assistance:

$ 37,250	Peabody Scholarships
37,175	Peabody Grant-in-Aid
150,350	Assistantships
$224,775	

Clearly, DMA candidates represent the vast majority of the personnel carrying out teaching assistantship responsibilities at Peabody. The costs for such teaching by full-time faculty would be markedly higher. It is estimated that approximately 15 doctoral candidates each work a minimum of 9 hours a week (135 hours in the aggregate), in accompanying and educational support activities.

Preparatory Division

The Preparatory Division of the Peabody Institute (The Prep) functions as a multi-artistic educational resource for children and adults in the Baltimore region. Its five locations (Downtown, Towson, Randallstown, Pikesville and Annapolis) service over two thousand individuals in such diverse programs as toddler music activities, ballet and a wide range of courses for adults. An annual summer school also provides courses of study for all ages.

Revenues for The Prep in 1988-89 were $1,413,300, with expenditures totalling $1,307,000:

Direct Institutional Cost	$1,002,000
Administrative Cost	295,000
Student Aid	10,000
	$1,307,000

$106,300 was contributed to overhead expenses. Approximately 25% of the Prep's students are over the age of 18, with the single largest age group (39.5%) between the ages of 6 and 12.

Although it is difficult to quantify cost savings through curricular adjustments at Peabody, the authors would strongly urge the Institute administration and faculty to carefully evaluate all course offerings based on current and future student enrollments, faculty compensation levels and contributions to the overall Peabody program with a goal of reducing costs by approximately $100,000.

Task Two Peabody's Current Staffing and Compensation Levels

Based on a salary review of 470 private institutions of higher learning as published in the May 24, 1989 edition of The Chronicle of Higher Education, the 1988-89 average Peabody salary for full-time teachers of $34,522 is $2,824 above the national average salary of $31,698 for music faculty around the country. Peabody's average salary, however, is $2,064 below the nationwide average for music faculty in public institutions ($36,586).

In general, Peabody faculty members interviewed feel that the teaching loads are equitable, although there is concern that members of the Music Theory faculty have higher than usual weekly course loads. Hourly rates for studio faculty members are in line with rates paid to faculty in similar institutions. It is understood that Peabody faculty salaries have risen dramatically in the recent past. The faculty structure for classroom and studio teachers currently reflects salary levels found at schools of music within major universities around the country.

In specific departments where imbalances of faculty/student ratios occur (i.e., the faculty member is guaranteed a minimum level of compensation for a set number of students taught weekly, with fewer students subsequently enrolling in that teacher's class), the administration feels confident that those imbalances can be remedied. Such imbalances occurred in 1988-89 in the following departments: cello, music criticism, early music, ensemble arts, viola and voice.

Peabody spent $126,593 on faculty-student travel and lodging during the 1988-89 academic year. The tradition of engaging non-resident faculty to teach at music schools has existed for most of this century at institutions on the eastern seaboard. These non-resident teachers are hired for their reputation as artists and teachers, their ability to attract students and/or their expertise in a highly specific area of music (e.g., vocal coaching, Renaissance music performance, bel canto performance practice, etc.).

Members of the Peabody administration have reported that Peabody has had a long tradition of bringing non-resident faculty to Baltimore. For the most part, these teachers travel from New York City, Philadelphia, Boston and Washington, D.C.

Peabody's annual faculty travel/lodging costs are higher than the limited number of schools of music polled for this report:

Juilliard (NYC)	$31,215
Curtis (Phil.)	67,444
New England Cons. (Boston)	85,000

There is general agreement that there is a smaller population of artist/teachers living in Baltimore than is found in other major cities of the northeastern corridor. As a result, Peabody has been under greater pressure than other institutions to expend larger amounts on bringing faculty to Baltimore.

Nevertheless, the Peabody administration has expressed the conviction that these travel/lodging costs can be reduced in the near future. Therefore, the authors recommend that the Peabody administration develop a plan to reduce costs in the area of travel/lodging for visiting faculty by $30,000. The faculty members who have been asked to travel to Baltimore weekly are distinguished individuals who enhance the quality of the courses of study at Peabody.

Although the authors addressed the question of a hypothetical decrease in Peabody's enrollment and a concomitant decline in overall faculty compensation in Task Seven, it is suggested that the Peabody administration begin a review of faculty compensation increases for the next five fiscal years. This review should be mindful in its analysis of the important increases in faculty salaries realized recently, as well as incorporating in the projections such gauges as the Consumer Price Index and other appropriate economic indices which will provide a rational basis for these future salary calculations.

Hopkins Administrative Fee and Potential Duplication of Effort Between Peabody and Hopkins Staff

In connection with our gaining an understanding of the justification for the administrative fee Hopkins charges to Peabody and identifying the benefits and potential duplication of effort between Peabody and Hopkins staff, the authors:

- Met with Hopkins administrative staff and reviewed allocation methodology and spread sheets in order to develop an understanding of the procedures employed.

- Met with Peabody administrative staff in order to gain an understanding of their roles and responsibilities and to identify potential duplication of effort and opportunities for reductions of administrative and other costs.

- Reviewed the budget reports and related financial data to identify the appropriate administrative and support cost functions.

The following paragraphs identify these functions, Hopkins' methodology for allocating each component of central administration costs, costs of Peabody's portion of administrative staff, benefits of the Hopkins services to Peabody and recommendations to improve the relationship and summarization of opportunities to improve efficiency of operation and reduce costs.

General Methodology

Over the past five years, Peabody's General Services & Administration (GS&A) expenditures average approximately 17% of the total institutional expenditures. The total GS&A and Hopkins administrative fee budgeted for 1990 approximates $1.9 million (Exhibit I). This appears high compared to a sample of other universities whose GS&A costs ranged from 5 to 9% of total expenditures. Therefore, there appears to be opportunities to reduce the costs of both the Peabody administration and the fee paid to Hopkins.

All University Administration expenditures which are not initially either directly charged to an academic division or supported by specific income are allocated to the academic divisions by an expenditure formula.

Hopkins allocates these costs to each of its divisions based on the division's use of services, where measurement is possible, and on relative expenditures of the division where use is not susceptible to measurement. For example, central purchasing costs are allocated based on the number of purchase requisitions handled for each division while legal and audit fees are collected in a cost pool which is then allocated by the division's expenditures relative to total university expenditures.

The Hopkins central university expenditures include the following cost categories:

- Executive and Staff Offices
- General Expenses
- Investment Management Fees
- Finance and Administrative Offices
- Communications and Public Affairs Offices
- Development Office
- Instruction and Research
- Operation and Maintenance of Plant

The 1990 budgeted expenditures for these offices is $22 million, of which approximately $7 million are considered measurable services and will be allocated according to divisional use. The $2 million budgeted revenues are then set against the remaining $15 million and the remaining $13 million is allocated based on the relative divisional expenditures. Accordingly, Peabody's share of administrative costs in 1990 will include $167,000 for the measurable services, and approximately $275,000 or 2.7% of the total remaining costs, for the nonmeasurable services. The sum of these costs results in a budgeted total $442,000 administrative fee in 1990.

Peabody Administrative Services

Certain administrative services are the sole responsibility of Peabody and are not, therefore, part of the administrative fee. The services which primarily support the Conservatory are listed along with their associated salary and benefit costs on Exhibit II, for a total cost of $1.1 million.

In addition, the Preparatory and the Preparatory Student Services offices primarily support the Prep at a salary and benefits cost of $137,000 and $119,000, respectively.

Therefore, the total of these administrative costs provided solely by the Peabody administrative personnel is approximately $1.3 million.

Allocation of Hopkins Central Administrative Costs

In fiscal 1988 the University allocated $396,000 of central administrative costs to the Peabody Institute. In fiscal 1989 the amount is expected to be $440,000. This allocation covers such costs as Development and Alumni Relations, shuttle bus, post office, Personnel/payroll, facilities management, Central Purchasing, publications and administrative and overhead.

Hopkins allocates central administrative costs to all of its divisions based on each division's use of central services, where measurement of such use is possible. Cost not susceptible to measurement are allocated based on the relative expenditures of the divisions.

Central Purchasing costs, for example, are allocated to divisions on the basis of purchase requisitions handled; shuttle bus costs on the number of users of the crosstown bus; mail service based on mail volume; personnel services on the number of employees served; etc. Other costs, such as legal fees and audit fees, are collected in a cost pool, which is then divided by total University expenditures and multiplied by each division's expenditures. The resulting amounts are then allocated to the respective divisions.

1. <u>Development and Alumni Relations</u>

Prior to its affiliation with Hopkins in 1977, traditional development responsibilities were shared among the administrative staff, but Peabody did not have any professional development staff. Since the affiliation, the emphasis on development has increased, and Peabody hired its own development staff and created an Alumni Relations position to work closely with the Development Office to fulfill Peabody's primary fund-raising needs.

The current development staff work with central university staff who provide technical expertise on development activities. Peabody's development records are fed into the university mainframe which enables preparation of both monthly and <u>ad hoc</u> reports.

Peabody's Development staff are responsible for coordination of the Capital Campaign Program and the Annual Giving Program. The Alumni Association and Alumni Relations Office oversee all Alumni programs.

Peabody's Development Office consists of the following staff:

> The Director of Development is involved with all essential development activities including handling major bequests and project underwritings, serving as liaison to principal investigators, and attending most Peabody sponsored activities.
>
> The Development Coordinator handles gift processing and acknowledgments as well as serving as the liaison to the annual fund and preparing most letters and reports.
>
> The Development Secretary provides administrative support for all Development personnel.

An additional position of Assistant Development Officer is budgeted but not filled at this time. The total budget for staff salaries and benefits is $138,000.

The Director of Alumni Relations works with the Public Information Office and Development Offices to cultivate support from Peabody Alumni. The salary cost for this position is $32,000.

In addition, Hopkins provides a number of central development and alumni relation services. The Hospital's share of the central development budgets is fixed in total at a negotiated sum and, therefore, Hopkins support is subtracted from the total of central development services before the allocations are made. Peabody's total fee for central development and alumni relations services of $89,000 is determined by the following allocations:

1. The central university Annual Fund Office performs all bulk mailings and handles all returns for the Annual Fund campaign. The costs of the Annual Fund are allocated on the basis of divisional receipts for the previous fiscal year (1988). Peabody's percentage of these costs is 9.4%, or $58,000.

2. Costs for offices which have university-wide impact or are at the core of any university development operations, are apportioned on the basis of a modified expenditure formula. Peabody receives the following services:

   General program oversight provided by the VP for Development and Alumni Relations.

   Support from the Development Office in the form of Johns Hopkins Associates, coordination of corporate and foundation relations, and technical support for planned giving and major gifts.

3. Costs associated with "volume-related services" including data base services, development research, corporate and foundation relations and plant O&M credit for central development are apportioned on the basis of the divisional percentages of total University gifts categorized by NACUBO standards. Specifically, the average total gifts for the last three actual fiscal years is computed for each division and subtracted from the sum of the average divisional annual fund receipts over the same three year period. The balance ($30,000) of the fee is for the above services.

The creation of a Peabody Development Office and the association with Johns Hopkins are essential to Peabody's fund-raising efforts. The professional development staff devote 100% of their efforts to managing fund-raising efforts, and the Alumni Relations officer has sparked a renewed level of Alumni support. Futhermore, the technical service provided by Hopkins would have to be obtained from a private law firm, most likely at a significantly higher fee. Finally, the association with the Hopkins name and the additional Hopkins contacts previously outside of Peabody's fund-raising pool, offer increased fund-raising potential.

While Peabody's total fund raising efforts in 1989 approximated $1,850,000 only $150,000 represented income from annual giving. The major funds raised were $750,000 from previous pledges, $600,000 from planned gift payments, and the balance, miscellaneous current gifts of approximately $300,000.

There appears to be minimum overlap between Hopkins and Peabody functions in this area and the sharing of responsibilities is appropriate. The total cost of operating the Development and Alumni Relations departments is high considering the amount of funds raised. Although it is understood that not all Alumni activities result in fund-raising revenue, total operating costs of all these activities at $259,000 does not appear to be justified. Through reorganization as suggested under Administration and Overhead in this section, opportunities exist to reduce these costs by a minimum of $68,000.

2. <u>Shuttle Bus</u>

Hopkins operates a crosstown bus which is used heavily by cross-registered students who commute between Peabody and Homewood campuses and by most students during evening and weekend hours of operation. Staff and faculty members also use this service to attend meetings at the Homewood campus. There is no user cost for this shuttle; however, Peabody is allocated $13,000 of the total costs of the bus based on estimated Peabody usage.

The cost-benefit relationship for this charge is hard to determine since it is a benefit to the students at a cost to the Institute.

3. <u>Post Office</u>

Peabody's mail is sorted and distributed by the two mailroom clerks whose total salary and benefits is $32,000.

Hopkins charges Peabody $7,000 for its share of the mail, based on volume, circulated by the central university post office. The bulk of this charge is for interdepartmental mail. Therefore, there is no duplication of responsibilities between the Peabody and Hopkins staff. However, the current mailroom clerks are both working at their capacity to perform, a very personalized mail service which includes continual distribution of mail throughout the day and performing special errands for faculty and staff.

The administration advised the authors that for years the mail room at Peabody has acted as a focal point of communication between faculty and students. Without faculty offices and with only one faculty secretary to service approximately 125 full time and part-time faculty, it would be difficult at this time to modify the operation of the mail room.

The administration plans within the next year and with existing funds, to deal with the issue of faculty offices and secretarial support. This will provide the administration with the opportunity to evaluate the cost of operating the mail room, including the "special staffing conditions" (age and handicap).

4. Personnel/Payroll

The Peabody Personnel/Payroll Office consists of the Director and one Assistant with a total salary and benefits cost of $65,000. These staff administer both the salary and wage program and implement contracts for Conservatory and Preparatory faculty and the Peabody Director, Deans, Associate and Assistant Deans, as well as maintaining the payroll system which is linked with the central University Personnel Office.

The salary and wage program includes approximately 60 non-faculty employees and is coordinated with the central University Personnel Office in terms of both system automation and new position classifications and reclassifications.

Peabody also manages between 200 and 225 faculty contracts. The Conservatory contracts are negotiated on an annual basis, and semimonthly amounts are entered into the university computer. There are few changes to these contracts.

On the other hand, the Preparatory contracts are based on the current class load and change at the beginning of each semester and sometimes three or four times per year. Therefore, the Peabody Personnel Office handles between 20 and 30 changes per month and about 100 changes at the beginning of each semester.

In addition, the Personnel Office monitors through internally developed work distribution sheets, the efforts of a number of faculty who teach at both the Conservatory and the Preparatory. The Personnel Office also prepares reports which detail original contract conditions, revised contract conditions and the dollar difference between the two. This helps the staff reconcile their records to the central university ledger reports. Finally, the Personnel Office is responsible for handling immigration issues, counseling, affirmative action and other mandatory personnel issues.

Over the years Peabody has acquired responsibility for most personnel and payroll functions, due in most part to the complexity of Peabody's contract policies. The administrative fee component for central university personnel services is $7,000, which supports services provided by the Vice President for Personnel Programs and the central university personnel office, including communication and training and use of automated systems. These costs are apportioned on the basis of divisional non-faculty employee distributions for the entire university.

There does not appear to be any significant duplication of effort between Peabody and central university staff, and the responsibilities appear to be appropriately distributed.

5. <u>Facilities Management</u>

Peabody's Director of Facilities Management and one administrative secretary are responsible for supervising Dome Corporation employees as well as overseeing major construction and renovation projects. The total salary and benefits cost for these staff is $68,000.

The Facilities Management portion of the administrative fee is allocated on the basis of expected time to be devoted to the various divisions. Peabody pays $21,000 for these services which represent approximately 7% of the total central university costs. Services provided include consultation from the Office of Safety and Environmental Health, advice on such issues as asbestos removal, handicap access, the overall construction process, and suggestions on which vendors to use. Project overhead is charged directly to the project and, therefore, is not part of this fee.

There does not appear to be any overlap or duplication of efforts in this area. However, the $21,000 fee appears high in relation to the services provided. Peabody should attempt to negotiate a reduction in this fee.

6. <u>Central Purchasing</u>

Since the university requires centralized purchasing, Peabody does not maintain any purchasing staff. The majority of purchases are submitted to central purchasing on a university purchase order. However, arrangements for purchase of instruments, especially pianos, are done outside of the central purchasing process. Computers are purchased through administrative computing. In addition, any required sole source justifications must be prepared by the requestor, usually with the assistance of Peabody's administrative services personnel. All contract negotiations, including such items as food service and maintenance and trash pickup are coordinated between Peabody administrative services and central purchasing staff.

The total cost of central purchasing is allocated as part of the fee based on the number of purchase requisitions handled. Peabody is assessed $3,000 or .5% of these costs which appears to be low for the variety of services provided. Since Peabody does not have any dedicated purchasing staff, there is no duplication of effort, and Peabody staff assistance with both sole source justification and contract negotiations appears appropriate.

7. Publications

Peabody's Public Information Office promotes Peabody's mission, cultural activities and educational opportunities through various publications and advertisements. The Director of Public Information with the assistance of one staff person and a secretary, at a total salary and benefits cost of $113,000, coordinate with the other administrative offices, faculty and students to create all brochures, advertisements, news releases and other promotional materials for both the Preparatory and Conservatory.

The Public Information Office provides the following types of services:

Admissions - Send a letter to each student who indicates musical interest on their PSAT exam form and follow up any responses to the letter with a package of information and a catalog. Public Information also purchases advertisements in educational music journals to promote Peabody among teachers of prospective students.

Promotion - Write, edit and produce Peabody News on a bi-monthly basis for distribution to Peabody affiliates in Baltimore and to the entire Hopkins faculty. This newspaper provides community news, information on Peabody's current events as well as articles on Hopkins affairs and Alumni news.

Gala Events - Produce informational brochures, paid for entirely through sponsors, for individual gala events conducted one to three times a year.

Photography - Photograph all institutional events for use in program publications and Peabody general catalogs and brochures.

Preparatory Programs - Promote particular Preparatory School classes to encourage increased participation.

The central university provides support to Peabody through publication of the Peabody catalog, Johns Hopkins Gazette, President's Newsletter and Johns Hopkins Magazine. The total fee for these services is $27,000.

Circulation costs for the Johns Hopkins Magazine and the President's Newsletter are allocated on the basis of recipients' relationship to the divisions and the Hospital. Peabody is assessed 5.4% of these costs, or $24,000. Therefore, a major portion of the $27,000 fee is for the Hopkins Magazine, which occasionally has a Peabody specific article, but is not clearly helpful to Peabody's efforts. Peabody may wish to take a closer look at the cost benefit of this component of the fee.

Similarly, the Johns Hopkins Gazette expenditures are allocated on the basis of divisional employee distribution for the total University. Peabody is assessed 3.4%, or $3,000 of these costs, with limited apparent benefit.

Peabody does, however, receive an enormous indirect benefit derived from access to an automated Peabody/Hopkins mailing list which is continually updated and easily manipulated.

While no apparent duplication of effort between Peabody and Hopkins exists, it is recommended that the administration review and evaluate the total costs of operating the Publications Department with the objective of reducing one staff member and a component of the Hopkins administrative fee for a total minimum cost reduction of $30,000.

8. <u>Administration and Overhead</u>

The pooled overhead component of the administrative fee covers services which are not measurable but benefit all of the divisions, e.g., President's Office, legal fees and audit fees. The total costs of these services is $12,300,000 after the direct allocations have been made, as explained in previous methodologies, and general revenues have been applied. This sum is distributed based on the relative expenditure by division, of which Peabody's portion is $274,000.

The services included in this component of the fee generally parallel those provided by Peabody's Director, Financial and Administrative Services and Archives Offices.

The Director's Office executes general superintendence over all Peabody affairs, serves as the liaison to the Board of Trustees of the Peabody corporation and is responsible for the operations of the Conservatory, Preparatory, Administrate Services, Public Information, Development, Concert Activities, Alumni and Archives Offices. The cost of the Director's Office personnel is $197,000.

The Director of Administrative Services is the chief business officer of the Institute and is responsible for all non-academic operations, primarily relating to financial management, personnel, and finance. The Director analyzes, plans and prepares Peabody's budget and oversees compliance with university policies.

Peabody's financial services are performed by two accounting clerks, one cashier, and a senior clerk typist under the direction of the Director of Administrative Services. The staff performs the following functions for both the Conservatory and Preparatory:

Student accounts
Financial aid accounting
Cashier
Accounts payable
Communications
General services

The total personnel costs for these services is $191,000.

Administrative services include the administration of auxiliary services as well as physical plant, security and the sound recording studio.

The total costs for administrative services personnel is $95,000.

The Archives Office, created in 1982, is responsible for the preservation and administration of inactive official files and documents, and for making these materials available to researchers and general public.

The cost of this position is $39,000.

Overall, the functions of the Director's Office, Financial and Administrative Services and Archives Office do not overlap or duplicate those provided by central university administrators and paid for in the general management overhead pool of the administrative fee. However, there is an opportunity for reducing administrative costs by either reducing, eliminating or modifying the Archives position, since this is not a full-time position at Peabody's peer institutions.

Total costs to administer the academic and general management functions are significant. The authors believe that the Office of Director should have primary responsibility for all external relations activities. Since the Development and Alumni Relations currently function in distinct offices with less than optimum net financial benefit to the institution, opportunities may exist for an integration of these functions within the Director's Office providing for potential cost savings of $68,000 and improved effectiveness as outlined under Item one of this section. In addition, opportunities exist to negotiate a reduction in the Hopkins' administrative fee and modify the activities of the office of the Director of Archives for a total additional savings of approximately $90,000.

Task Three Peabody's Auxiliary Enterprise Programs

Peabody's auxiliary enterprise programs include:

Dormitory (Housing)
Cafeteria (Food Service)
Book Store
Garage

Accompanied by representatives of the Peabody administration, we visited and inspected each facility. Comments with respect to each operation and recommendations with respect to improvements, operating efficiencies and revenue enhancements follow.

The Dormitory (Housing)

The Peabody Residence Hall contains fully-furnished air-conditioned single or double rooms at a capacity of 163 persons. Since one floor of the Residence Hall houses Peabody's Elderhostel program, the student residence area is limited to 135 rooms. All first year undergraduate students are required to live in the Residence Hall unless they reside with parents, guardians or spouses in the Baltimore area. In addition, Peabody provides full room and board for five Resident Assistants, one for each floor.

Excluding the Elderhostel floor, the dormitory has a capacity for 19 students in single rooms and 116 students occupying double rooms for a total capacity of 135. Based on current rates of $2,920 per single and $2,220 per double room, if the dormitory were operated at capacity, Peabody would generate revenues of $313,000 for dormitory use. Offset against an estimated $305,000 dormitory expenditure, the housing operation would generate a modest profit.

However, since 1985, the dormitory has operated at an average 84% of capacity available to students resulting in average loss of $34,000 per year.

Occupancy rates cannot be improved unless considerable investment is made in the physical condition of the dorms. Student complaints, confirmed by Peabody administrators, include unclean bathroom facilities, poorly sealed windows, rodents, and unbalanced temperature control (i.e., either too little or too much heat). The estimated deferred maintenance cost on the dormitory is $550,000 (see Exhibit X) to perform the following repairs:

Replace roofs	$150,000
Improve temperature control	25,000
Replace windows	200,000
Refurbish furnishings	175,000

By correcting these and other problems which have been deferred in the past, the demand for on-campus housing, which is both more convenient and safer than available off-campus alternatives, could increase significantly.

In addition, if the necessary repairs were made, additional revenues could be generated by increasing room rates which have increased an average of only 5% to 7% per year for the last five years.

Outside of the required refurbishing, revenue enhancement opportunities exist in both decreasing the number of Resident Assistants and increasing the size of the Elderhostel program.

The level of staffing of five Resident Assistants for a maximum of 135 students should be reviewed. We recommend that the administration explore the feasibility of reducing this staff to two or three with the objective of generating additional revenue for the dormitory of $5,800 or $8,700 based on a single room occupancy. We also suggest that the administration consider charging the Resident Assistant 50% of the meal costs which would generate approximately $2,000 to $3,000 additional revenue.

If the proposed dormitory refurbishments are completed and Peabody can not attract enough students to fill the 135 available spaces, a significant revenue enhancement opportunity exists by expanding the Elderhostel Program from 25 to 50 participants per session. It is anticipated that this expansion, which is within national program guidelines, would generate approximately $30,000 additional revenues and would occupy available dormitory space with minimal additional program costs.

Cafeteria (Food Service)

The Peabody Dining Hall is located between the two residence towers of the Residence Hall. The cafeteria serves breakfast, lunch and dinner during the week and brunch and dinner on the weekend for students who participate in either a fifteen or nineteen meal plan. Off campus students who do not subscribe to the meal plan may select a la carte foods on a cash basis.

Since 1985, an average of only 91 students have opted for the 15 meal plan and 22 students have participated in the 19 meal plan, resulting in an average annual operating loss of $29,000.

In response to complaints regarding both the service and quality of food, Peabody has recently signed a contract with The Seiler Corporation which provides for a number of enhancements in the food service. The previous arrangement required that Peabody pay a fixed management fee and cover any costs that were not made up through direct revenues.

The new contract contains a guaranteed fixed price for an enhanced level of services. Peabody will pay Seiler the following rates per student per day for meal plan students:

Number of Students	19 Meal Plan	15 Meal Plan
Below 115-Negotiated		
115-125	$8.310	$8.182
126-135	7.820	7.694
Above 135-Negotiated		

In addition to the regular meal plans, the new contract will provide "Casual Meals" at the following fixed prices which appear to be less expensive than selecting items on an a la carte basis:

Breakfast	$2.65
Brunch	3.65
Lunch	3.65
Dinner	4.75
Premium Dinner	5.25

Peabody will receive 10% of the additional Casual Meal revenues.

Finally, in addition to the daily rate, Peabody will pay Seiler's a fixed monthly subsidy of $1,814 per month.

Although it is difficult to compare the cost of the two contracts, the new contract is estimated to increase food service costs approximately 10% or $20,000 to $25,000. However, the expectation is that improvements in the food service will encourage students to remain in the Residence Hall on the meal plans, to the benefit of both housing and food service operations.

Overall, there is a concern that Peabody does not have the critical mass of students necessary to operate a profitable food service operation. In addition, the Institute's location precludes opportunities for joint ventures with other institutions. Therefore, although an operating loss is probable given the size of the operation, if Peabody feels compelled to offer food service to its dormitory students, this loss can be minimized using the following strategies.

If the dormitory is renovated and operated at capacity and the food service is improved, the expectation is that all 135 students would participate in a meal plan. Since an average of only 22 students participate in the 19 meal plan, we recommend that only a 15 meal plan be offered, reducing the high relative cost of weekend operation.

There is an additional revenue enhancement opportunity realized by decreasing the subsidy to Resident Assistants to 50% of the cost of food service. Assuming the Administration reduced the number of Resident Assistants and they all participated in the 15 meal plan, an additional $2,000-$3,000 revenues would be generated.

Projected results from 1989 Cafeteria operations are anticipated to produce a loss of approximately $24,000. Savings in utility costs significantly impacted operating results compared to 1988. Pro forma results for 1991 reflect projected cost/revenue enhancements discussed in this section of the report. A pro forma summary of operations for 1990 and 1991 is as follows:

	Pro Forma	
	1990	1991
Sales	$373,000	$445,000
Cost of food	125,000	145,000
Cost of labor	152,000	160,000
Operating expenses including debt service	133,000	140,000
	410,000	445,000
Contribution (loss) to overhead	$(37,000)	$ -0-

In summary, based on current student usage, condition of the dormitory facilities and quality of the food program, it would be very difficult for Peabody to achieve a "break even" from the food operations. However, if the dormitory refurbishment program is approved and management explores the cost and revenue enhancement opportunities discussed above, we believe a "break even" result can be achieved with approximately $35,000 savings.

Garage

Peabody owns an 85 space garage located underneath the dormitory, which is managed by Broadway Services, Inc., a wholly owned subsidiary of the Dome Corporation. The current arrangement provides better service and accountability at a savings of $2,000 over Peabody's previous contract with Edison Corporation.

During the academic year the garage operates at capacity most of the time, with between 210 and 220 cars parked per day. The cost to faculty is $10 per month or $1.25 per coupon, which is approximately 12% of the total cost to Peabody. Peabody subsidizes the difference in order to keep the faculty and staff's cost of parking comparable to the cost at Homewood, which is currently $1.00 per day. The cost per day for one time or "transient" use is a maximum of $5.00.

The competition in the immediate area includes both the Chesapeake Garage, located a block away, and a parking lot directly across from the garage entrance on Charles Street. The Chesapeake Garage charges $6.00 per day. Although the open lot currently charges $3.00 per day, the competitive threat is temporary as plans are underway to build a housing, retail complex with garage on that site.

It is important to note that, effective August 1, 1989, the City of Baltimore raised its parking tax from $4.00 to $10.00 per monthly permit and from 20 to 35 cents per transient ticket. Additional increases to $11.00 and then $12.00 per monthly permit and 40 and then 45 cents per transient ticket will take effect July 1, 1990 and July 1, 1991. Since Peabody will have to increase its rates to adjust to these increases, we recommend that larger profit margins and decreased faculty and staff subsidies become part of the revised rate structures.

Specifically, Peabody should consider increasing its daily rate from $5.00 to $5.50 per day and increasing the monthly rate from $85.00 to $95.00 at the same time as decreasing the subsidy for internal users to 70% of cost. This strategy would increase monthly permit revenues annually by $17,500 as illustrated in the following chart:

Type of User	Number	User Cost	Peabody Subsidy	Revenue Enhancement
External	1140/yr	$95.00	$ -0-	$ 4,569
Internal	924/yr	30.00	65.00	12,936
				$17,505

Additional revenues would be generated from internal and external coupon holders and transient users.

If the Peabody Administration implements the above recommendations, annual revenue enhancements of approximately $25,000 could be realized.

These rate increases, of course, will have to be negotiated with Broadway Services with consideration of what other Hopkins' divisions decide to do. However, regardless of the actions of other divisions, Peabody needs to become more aggressive in enhancing the revenues of this profitable auxiliary enterprise.

Book Store

The Peabody Book Store, located in the lobby of the Residence Hall, is contracted as part of Barnes & Nobles university-wide book store contract. Peabody receives a flat fee of approximately $2,700.

The nature of the Peabody programs, which depend in large part on each instructor's individual preferences and teaching style, limit the use of traditional texts. Therefore, the Book Store is more geared toward providing supplies, snacks and items bearing the Peabody emblem than towards book sales.

Due to the size and nature of the operation, we do not believe that Peabody can significantly reduce costs or enhance revenues.

A summary of the revenue enhancement and cost savings opportunities for the auxiliary enterprise programs are:

Dormitory	$ 75,000
Food Service	35,000
Garage	25,000
Book Store	None
Total	$135,000

Task Four Peabody's Tuition and Scholarship Assistance Programs

Peabody's current tuition of $10,350, ranks in the upper half of institutions polled in Exhibit III. These schools of music were chosen for their stature nationwide. The schools represent a mix of private and state-supported institutions. Although the Peabody tuition level is comparatively high, the overall budget for annual study of $14,580 compares favorably with similar institutions in cities like New York or Boston. For example, the Juilliard 1989-90 annual student budget is $19,575 based on a tuition of $8,500 and living expenses.

All Peabody supported scholarship assistance (no Federal or state scholarship or loan programs) is budgeted at $2,225,000 for the 1989-90 academic year.

$1,500,000	- Grant-in-Aid Scholarships
	- College Work Study (Peabody portion)
350,000	- Assistantships
225,000	- Endowed Scholarship Interest
150,000	- Current Funds Raised
$2,225,000	

Tuition revenue is expected to be at a level of $4,500,000 for the same period, indicating that 49.4 cents of every dollar received is returned through scholarship assistance. This is a comparatively high ratio for a school with an endowment of approximately $10 million. In comparison, The Juilliard School, with an endowment of about $165 million, gives back 44 cents of scholarship aid on every tuition dollar raised.

The Peabody administration has pursued an aggressive financial assistance program for its students with the result that a "critical mass" of highly accomplished young musicians are now able to enroll at Peabody. Competition for the best young musical talent is very keen among the best professional schools of music in the United States. Usually that competition is manifested through the creation of scholarship packages which attempt to offset most of the cost of a student's education. In the case of certain less accessible instruments which are needed to fill orchestral positions (bassoon, double bass, oboe, viola, tuba), the competition for the limited number of qualified students is quite intense.

Although the current Peabody scholarship program has been successful in enrolling high quality students, the School's endowment must be increased dramatically if such outlays can be responsibly continued in the future. The current scholarship level of $2,225,000 would require an endowment of approximately $35 million in order to be fully supported.

Of the many problems which the authors have addressed in this study, the question of support of on-going scholarship assistance at Peabody is the most intractable. In order to create a fiscally secure scholarship program for the future, the following two elements must be in place:

1. Increased endowment for the generation of income, plus greater annual giving for support of scholarship; AND

2. A plan to moderate or contain future increases in student financial assistance, closely aligned to the financial resources of Peabody.

Therefore, the authors believe that in order to preserve the quality of the student body now and in the near future, any precipitous decrease in scholarship assistance would be very harmful to Peabody. In addition, as a result of the multi-faceted decisions which must be made to resolve this pressing issue, it is not possible for the authors to rationally quantify savings in this area.

Task Five Services Provided Peabody by the Dome Corporation

The Dome Corporation provides Peabody contracted maintenance, housekeeping and security services.

The Dome Corporation is a land, real estate and building services management company established by the Johns Hopkins University. Broadway Services Inc. is a wholly owned subsidiary of Dome, which provides maintenance, housekeeping and security services to the Peabody Institute. The current arrangement has evolved through a series of negotiations over the past ten years. These services were previously provided by different vendors.

The current arrangement provides Peabody with increased control and accountability at a reduced cost from the previously contracted services. When Peabody switched to Broadway Services they immediately recognized significant cost savings in both the custodial and security services as well as a little less significant cost savings in the maintenance services.

The current arrangement with Broadway requires Peabody to provide supervision of personnel but holds Broadway Corporation responsible for providing the people. Peabody sets the priorities and schedules according to its individual needs while Broadway is responsible for providing personnel and handling sick leave and other benefits. The difference between current and previous arrangements lies in the allegiance of the supervisors to Peabody, rather than Broadway, which increases the control over the quality of service. In addition, Broadway Services also manages other Hopkins facilities and can reassign staff from one facility to another, as necessary to compensate for special circumstances, such as unexpected illness or workers not reporting as scheduled. This provides Peabody with a more stable and reliable workforce. Finally, the employees receive enhanced benefits as a result of the Hopkins affiliation which decreases turnover and increases productivity.

Overall, Peabody is satisfied with both the cost and quality of service provided. Because of the unique arrangement it is difficult to either evaluate the total cost and quality of service by industry standards.

However, our investigation of similar type services provided by other Baltimore area vendors disclosed that Peabody's costs are either in line with or below current contractual charges. Accordingly, no cost reduction appears to be available at this time.

Task Six Peabody's Facilities and Collection of Fine Arts

Educational institutions strive to seek a balance between quality faculty, students and facilities. Unfortunately, the latter category, facilities, is always the first to suffer when resources are scarce. The plight of underfunding for facilities was brought to light at a recent congressional hearing when the following facts were presented by Coopers & Lybrand on behalf of NACUBO.

> "The cost of meeting the total capital renewal and replacement needs at the nation's colleges and universities would equal 55% of the total operating expenditures in higher education in 1986."
>
> "$20 billion of the estimated $60 to $70 billion in capital renewal and replacement needs are deemed as urgent or priority."
>
> "Colleges and universities deferred $4 of needed maintenance for every $1 spent in 1988."

The situation at Peabody not only mirrors that of the nation but, until recently, exceeded nearly four times the norms as stated above.

The expenditure of $3.5 million for the concert hall renovation completed in 1983 and the current $10.5 million construction currently underway allow the Peabody to fall within the upper limits of the survey. After having committed $14 million to facilities, Peabody still needs to spend $5,692,000 to catch up with all deferred maintenance items, including $1,880,000 deemed urgent and essential.

Accompanied by representatives of the Peabody Administration, we visited and inspected the academic, administrative and support facilities located in Mt. Vernon Place and the Peabody Preparatory facilities at Goucher College. Excepting Peabody Preparatory facilities at Goucher College and "Washington Place Town Houses" all the other facilities are important and essential to Peabody in the conduct of its primary mission and function in maintaining its school of music operations.

We also reviewed the Summary of Insurance Coverages for Peabody and are satisfied that coverages are adequate and the expenditure cost effective.

We have prepared and attach exhibits IV through XIII, documenting proposed renovations and major maintenance programs for the period 1990 through 1995. These schedules indicate that Peabody will incur $5,692,000 of major maintenance programs of which $1,880,000 are required or essential. Subtracting the proposed expenditures for "Washington Place Town Houses" Peabody would still incur approximately $2,200,000 of expenditures during the next six years, or approximately $370,000 annually. These expenditures are over and above the amounts included in the current budget. Comments with respect to each follows:

A. NEW ACADEMIC BUILDING

This facility is under construction and is not expected or budgeted to incur any major maintenance or renewal expenditures during the next six years (Exhibit V). However, Peabody will incur annually approximately $390,000 additional debt services cost when the facilities are completed. The estimated total debt service when the building is completed will be $687,000.

B. PREPARATORY BUILDING

While the Preparatory building will benefit substantially from the construction of the new academic building, other facilities needing immediate attention are: bathrooms, piping, painting and acoustical treatments. Estimated costs for these projects approximate $495,000 (Exhibit VI).

C. PEABODY LIBRARY

A new roof is currently being added to this facility which is expected to be completed soon. However, other costs for maintaining the windows are approximately $20,000.

D. CONSERVATORY BUILDING

During the last several years, substantial expenditures were incurred to refurbish the main concert hall, add a new roof and new electric wiring system. However, projected additional costs to renovate the bathrooms, install new HVA system, repoint the stone, repair the iron railing, scrape and paint the windows, and attend to the acoustical deficiency approximate $1,070,000.

E. SCHAPIRO HOUSE

A new roof, gutters and downspouts and a HVA system have been replaced during the past year. In addition, the exterior stucco needs repairing and repainting and the interior needs to be painted and carpet replaced. The estimated costs for these programs approximate $57,000 (Exhibit IX).

F. DORMITORY AND GARAGE

The dormitory is approximately 23 years old and its roof and student furnishings are in need of immediate attention. Estimated costs to provide for a new roof, replace the furnishings and replace <u>unsafe windows</u> approximate $550,000. See Task Three which documents recommendations concerning proposed revenue enhancements when these expenditures are made.

The garage does not appear to require any major refurbishing.

OTHER FACILITIES

1. "Washington Place Town Houses"

   The townhouses composing "Schapiro Row" were acquired from the City in the 1960's and have not been occupied since the fall of 1982 because of deterioration in the condition of the houses. We understand that these facilities are historically appointed and are <u>required</u> to be maintained in accordance with historical guidelines. An architectural estimate prepared in 1987 identified costs of $3 to $3.5 million to renovate these buildings. We suggest that Peabody explore the feasibility of entering into an arrangement with a private developer to bring these facilities up to standard. Accordingly, we have not included the costs of renovating them in the future projections. Such arrangements may be made on a sale/lease back or other such arrangement that would protect Peabody's future ownership and also include incentives for the private developer.

2. Preparatory School - Goucher College

   Peabody entered into an agreement in March 1958 with Goucher College to lease certain land and construct facilities for a Preparatory School operation. The lease expires in January of 2008 and Peabody has renewal options for 25 years ending on the 31st of January 2033. The land and facilities are in a recently commercial developed area and the leasehold interest would appear to have significant value because of its long term nature. A few years ago Peabody explored with Goucher the feasibility of terminating its leasehold interest but was unable to satisfactorily arrive at a reasonable price for such interest. We recommend that Peabody continue to work with representatives of Goucher and negotiate a reasonable price for its interest. It is difficult, without specific independent appraisals of such interest, to determine its fair market value. The Peabody Administration believes that such interest has a fair value in the range of $1.5 to $2.5 million. The Administration also believes that it could satisfactorily negotiate a transfer of the Peabody Preparatory operations to another location at Goucher or possibly at Towson State or a similar type location in Baltimore County.

The Administration does not anticipate that a change in the Preparatory facility would substantially increase its cost of operating this activity, assuming that rent or maintenance costs are free. If the Administration is successful in disposing of its leasehold interest and received $2 million for the facilities and leasehold interest which would be assigned to its endowment funds, it could realize additional investment income of approximately $140,000 annually based on an investment yield of 7%.

3. Fine Arts

Peabody has an extensive collection of fine art appraised by Sotheby in December 1988 at approximately $13 million. Twelve paintings of this collection are appraised at approximately $11.5 million and are displayed at The Baltimore Museum of Art, The Walters Art Gallery, The Peale Museum and the Maryland Historical Society. We recommend as a minimum that the Institute explore the feasibility of disposing of these works and adding the proceeds to its endowment fund. Estimated income from such disposition of approximately $15 million and at an average portfolio yield of 7% would approximate $1,050,000. We have not, however, investigated the legal and other implications of such dispositions.

Task Seven <u>Efficacy and Scope of the Current Peabody Program</u>

As noted earlier, the efficacy and scope of the current Peabody program reflect an institution of vibrancy and high quality. Faculty and administrators feel strongly that Peabody is currently at a correct size with a student body of approximately 435 students. All individuals involved with the institution believe that a larger Peabody, for example of 500 or 550 students, would severely burden the physical plant and teaching personnel. Currently, even with the addition of a new building, it will not be possible to provide adequate practice facilities for all students and office and studio space for faculty.

A smaller Peabody, for example 300 students, also raises programmatic problems since the institution at that size will lose the "critical mass" (students playing appropriate instruments who must populate various ensembles for artistic and educational programs to exist) necessary for it to function properly.

To illustrate the point briefly, any fine school of music needs at least one symphonic orchestra of about 100 musicians. In addition, opera programs also require the presence of an orchestra in the pit. Various ensembles for chamber music, early music, contemporary music, etc. also need personnel. Through participation in all these musical activities, a young musician begins to prepare for a professional career. Since students should not be asked to perform in <u>all</u> these activities during one academic year, there must be enough qualified students enrolled in the school to create the "critical mass" of musicians which allows the institution to function and flourish.

The size of schools of music based on student enrollment differ widely throughout the country. The smallest schools of high regard are the Curtis Institute of Music (approximately 175 undergraduate students) and the Yale University School of Music (approximately 150 graduate students). The other end of the spectrum includes the Indiana University School of Music and the University of North Texas School of Music, with student populations in excess of 2,000 in various programs of study.

It seems clear to the authors of this report after discussions with Peabody faculty and administration that an increase in the Institute's student population would compromise standards in most departments of the School. The creation of a larger Peabody in order to generate a higher level of tuition dollars would be a grave mistake.

Conversely, an excessive down-sizing of Peabody would put into jeopardy the many fine programs in orchestral and chamber music, opera and piano, to name only a few, which depend on a "critical mass" of students in order to operate effectively.

For illustrative purposes, however, the authors have presented a chart (Exhibit XIV) which compares enrollment levels in all Peabody departments in 1988-89 with hypothetical minimum enrollment levels in each department while still attempting to keep the student "critical mass" in place. In certain departments (double bass, trombone, tuba, music criticism, viola, bassoon, oboe), the current low level of enrollment has necessitated an <u>increase</u> in students to bring the department to minimum levels of enrollment in support of Peabody programs. Although the decreased hypothetical enrollment levels have been created through subjective means, they do reflect, in a general way, instrumental requirements for the traditional programs in performance at a professional school of music.

The figures provided in this exercise are based on subjective criteria due to the many questions which first must be addressed by the Peabody/Hopkins administration before a program of enrollment reduction can be initiated. For example, the proposed decrease of 36 students in the piano department presents a decrease in annual expenditures of $159,408 based on a 1988-89 per student cost of $4,428. Since the hypothetical savings through decreasing the overall enrollment will be accomplished primarily through a decrease in faculty compensation, it should be clearly understood that such actions will not be achievable through a simple multiplication of per student costs. Various contractual agreements, the inherent accomplishment and value of individual faculty members and other subjective issues must be taken into account in this process. In addition, it seems unlikely that any major savings would be realized through a diminution of administrative staff based on a lower enrollment. The projected decrease of $187,853 in scholarship expended represents 8.3% of the budgeted total of $2,250,000 for fiscal year 1990.

In summary, the exercise of downsizing Peabody enrollment by approximately 17% (75 students) results in a maximum decrease of about 25% in studio faculty salaries ($343,629 ÷ $1,349,545 = $25.5%) and a 17% decrease in annual tuition revenue:

434 students x $10,350 tuition = $4,491,900
359 students x $10,350 tuition = 3,715,650

Decrease in tuition revenue = $ 776,250 or 17.3%

Due to the many variables involved with faculty compensation and staffing, it is the opinion of the authors that any cost-saving through attempting to lower Peabody enrollment would not be significant. This process may also cause more morale and personnel problems than justify such a decision.

EXHIBIT I

PEABODY'S PRO FORMA BUDGET FISCAL 1990 SUMMARIZING OPPORTUNITIES FOR COST REDUCTIONS, REVENUE ENHANCEMENT AND PROJECTED ADDITIONAL COST
FISCAL YEAR ENDING JUNE 30, 1990

			Opportunities for		Projected	Pro Forma
		Budget	Cost Reduction	Revenue Enhancements	Additional Costs	Budget
Operating Revenues:						
Tuition and fees including Maryland State Aid $430,000		$ 6,230				$ 6,230
Annual giving		150				150
Auxiliary enterprises		920		$ 135(3)		1,055
Endowment income		560		1,190(4)		1,750
Grants and other annual support		150				150
Other		440				440
Total		8,450				9,775
Operating Expenses:						
Instruction and research		5,320	$130(1)			5,190
Libraries		250				250
Operation and maintenance of physical plant		1,760			$370(4)	2,130
Administration:						
Peabody - direct	$1,630					
Hopkins management & administrative fee	440	2,070	198(2)			1,872
Student services		800				800
Student aid		2,280				2,280
Auxiliary enterprises		870				870
Future debt service					390(4)	390
Total		13,350				13,782
Excess of Operating Expenses Over Operating Revenues (Loss)		(4,900)				(4,007)
Grants and Subsidies:						
Federal		300				300
State of Maryland		900				900
National Endowment of Arts		20				20
		1,220				1,220
Net Loss		$(3,680)				$(2,787)

(1) See Task One
(2) See Task Two
(3) See Task Three
(4) See Task Six

SUMMARY OF ADMINISTRATIVE FUNCTIONS PERFORMED BY PEABODY AND HOPKINS AND PROJECTED COST REDUCTIONS

Description of Function	Estimated Direct Payroll & Employee Benefits Peabody	Johns Hopkins Administrative Fee	Total	Estimated Potential Cost Savings	Comments
Development & Alumni Relations	$ 170,000	$ 89,000	$ 259,000	$ 68,000	The amounts raised annually for annual & endowment funds does not appear to support an expenditure of over $250,000. Recommend eliminating position of Development Assistant $35,000; a reduction in administration fee of $33,000 for a total savings of $68,000.
Shuttle Bus	-	13,000	13,000	NONE	
Post Office	32,000	7,000	39,000	NONE	
Personnel/Payroll	65,000	6,000	71,000	NONE	Appears well managed.
Facilities Management	68,000	21,000	89,000	10,000	Current fee appears high for services performed. Suggest Peabody negotiate reduction of $10,000.
Central Purchasing	-	3,000	3,000	NONE	
Publications	113,000	27,000	140,000	30,000	Total direct costs of operating this activity appear to be high particularly Peabody's portion. Recommend a study of operations directed towards reduction of one staff member and a component of the administrative fee for a total minimum cost reduction of $30,000.
Administration & Overhead	661,000	274,000	935,000	90,000	Negotiate a reduction in administrative fee by $50,000 and modify the office of director of archives.
Total conservatory	1,109,000	440,000	1,549,000	198,000	
Preparatory Administration and Student Services	232,000	-	232,000	-	
Total Peabody	$1,341,000	$440,000	$1,781,000	$198,000	

EXHIBIT III

COMPARATIVE REVENUE RELATED DATA FOR SELECTED SCHOOLS OF MUSIC IN UNITED STATES

Institution	Annual Tuition	Fees		Endowment
Peabody	$10,350	Nil fees		$10 million (approximate)
Private Independent Conservatories				
Cleveland	$ 9,375	Comprehensive Fee (Library, Practice Rooms, Activities Fees) Health	$275 $441	$11 million
Curtis Institute of Music	None	Application Audition Registration	$ 35 $ 50 $200	Not published
Juilliard	$ 8,500	$200		$165 million
New England Conservatory	$11,000	Health Fee Practice Room	$416 $125	$22 million
San Francisco Conservatory	$ 7,800 Full-time $ 1,400 + $316/credit Part-time	Registration Application Student Fee	$ 20 $ 50 $ 5	$8.4 million
Private Universities with Schools of Music				
Eastman-University of Rochester	$12,150			$100 million
Northwestern University	$12,996			$41 million
Oberlin Conservatory	$13,835	Health Student Activities	$275 $113	$41 million (estimated 20% of the total $203 million endowment is attributable to the Conservatory)
University of Southern California (Los Angeles)	$445/unit $13,200	Health Center/ Student Activities Individual Instruction	$248/year $178/unit	$5.9 million
Yale School of Music (graduate students only)	$10,575	None		$15 million

COMPARATIVE REVENUE RELATED DATA FOR SELECTED SCHOOLS OF MUSIC IN UNITED STATES

Institution	Tuition	Fees		Endowment
Public Universities with Schools of Music				
Indiana University	$67/unit Resident Undergraduate	Recital 1-page	$ 25	$5 million (appr.)
	$88/unit Resident Graduate	2-page	$ 35	
	$202.85/unit Non-resident Undergraduate	Recording	$ 25	
	$251.50/unit Non-resident Graduate	Instrument Rental	$ 54/year (Music major)	
			$ 76/year (Non Major)	
		Practice Room	$ 38	
		Student Health	$ 80/year	
		Student Activities	$24.90/year (3 units or less - $12.50/year)	
		Applied Music	$220/year (Major)	
			$110/course (Non Major)	
		Technology	$ 60/year (7 or more units)	
			$ 24/year (4 - 6 units)	
			$ 12/year (less than 4 units)	
University of Michigan	$ 2,781 Full-time Instate	Registration	$ 68.12	$3.4 million
	$ 5,821 Full-time Out-of-State	Student Assembly	$ 6.77	
	$383/unit + $300 additional units	School Government	$ 1.00	
	$721/first unit + $638/additional unit	MI Collegiate Coalition	$ .35	

Exhibit IV

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995
Owned:		
New Academic Building	$ 0	$ 0
Preparatory Building	495,000	260,000
Peabody Library	20,000	20,000
Conservatory Building	1,070,000	800,000
Schapiro House	57,000	50,000
Washington Place Town Houses	3,500,000	200,000
Dormitory/Garage	550,000	550,000
Totals	5,692,000	1,880,000
Less, Schapiro Row	3,500,000	200,000
	$2,192,000	$1,680,000

Exhibit V

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Estimated Cost	Appraised or Insured Value	Estimated Current Annual Maintenance Cost	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Estimated Revenue Enhancements	Comments
Owned:							
New Academic Library Building	$10.5M	$10.5M	N/A	N/A	N/A	N/A	The new academic and library building will add the following components to Peabody's facilities: - The new heating and cooling plant will provide a dependable and efficient source for the entire facility. (Since this will provide H.V.A.C. for the Peabody Library of J.H.U. - should there be cost sharing of the capital expenses?) The capacity of the A/C system will serve the entire facility as soon as the appropriate conveyance systems are added. - Peabody will now be 90-95% handicapped accessible (Was less than 50% previously). - Peabody will now have 48 practice rooms giving them a 9 to 1 ratio per student - average is 7 to 1 Peabody had none before. - The new Library space will allow the entire music collection to be accessible to students, and will provide appropriate listening stations for students. - Included in the $10.5M cost is $220,000 to either rebuild or purchase new pianos. This effort will take approximately six months, but when complete, piano inventory will be 40% either new or rebuilt.

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised Value	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Estimated Revenue Enhancements	Comments
Owned:					
Preparatory Building	$2,900,000	- Modernize bathrooms include handicapped accessibility $175,000		0.00	The construction of the new academic/Library Building will benefit the Preparatory building as follows:
		- Updating the pipe system that conveys hot water for the purpose of heating the building $250,000	- Updating the pipe system that conveys hot water for the purpose of heating the building $250,000		- By connecting the floor levels of the two buildings the Preparatory will now be handicapped accessible
		- Scrape, prime, paint windows $10,000	- Scrape, prime, paint windows $10,000		- 13 rooms adjacent to the new building will be serviced by the new H.V.A.C. system
		- Acoustical treatment for studios $60,000			

EXHIBIT VII

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Comments
Owned:			
George Peabody Library	New roof - Currently underway		
	- Scrape, prime & paint windows $20,000	- Scrape, prime & paint windows $20,000	

EXHIBIT VIII

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised or Insured Value	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Comments
Owned:				
Conservatory Building	$10,000,000	- Modern bathrooms $150,000		- In 1981-83 a $3.5M renovation project focused on the refurbishing of the main concert hall and a new roof for the building
		- New conveyance system for H.V.A.C. $500,000	- New conveyance system for H.V.A.C. $500,000	- In 1984 & 1985, new electrical wiring was installed
		- Repoint stone on exterior $25,000 - $250,000	- Repoint stone on exterior $25,000 - $250,000	
		- Repair iron railing on Washington Place $50,000	- Repair iron railing on Washington Place $50,000	
		- Acoustical treatment to rooms $100,000		
		- Scrape, prime, paint windows $20,000		

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised Value	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Comments
Owned:				
Schapiro House	$350,000	- Exterior Stucco repair & repainting $50,000 - Interior painting $5,000 - New carpet in lobby $2,000 - Handicapped accessibility ??	- Exterior Stucco repair & repainting $50,000	Within the past year, a new roof and down spouts have been added, as well as replacement of 50% of the conveyance pipes, and 100% replacement of H.V.A.C. units.

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised Value	Estimated Current Annual Maintenance Cost	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Estimated Revenue Enhancements	Comments
Owned:						
Dormitory/Garage	$3,900,000	0.00	- New roofs $150,000 - Temperature control modifications $25,000 - New furnishings for rooms $175,000 - Replace unsafe windows $200,000	- New roofs $150,000 - Temperature control modifications $25,000 - New furnishings for rooms $175,000 - Replace unsafe windows $200,000	If refurbished room rates could be raised 10 to 15% higher thus adding $25,000 - $40,000 in annual revenues This of course assumes stable enrollments particularly at the undergraduate level	The dormitory complex is 23 years old and has its original roof and student furnishings

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised Value	Estimated Current Annual Maintenance Cost	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Comments
Owned:					
Washington Place Town Houses	$645,000	0.00	Total Renovation	New Roofs & Cornice Work $150,000 - $200,000, immediately	These townhouses were acquired from the city in the 1960's and have been vacant since the fall of 1982. A 1987 architectural study identified a cost of $3,000,000 to $3,500,000 to renovate these buildings.

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised Value	Estimated Current Annual Maintenance Cost	Current/Deferred Maintenance Programs	Required Renovation Programs and/or Major Maintenance Programs 1990 - 1995	Estimated Revenue Enhancements	Comments
Owned:						
Leasehold Interests:						
Preparatory School Goucher	$1,205,000	$25,000	0.00	0.00	0.00	The site on which the Towson Preparatory is located is not maximized from a financial standpoint, in that the land is not being utilized for its highest use. The ideal solution would be to sell the leasehold interest and move the Towson branch to a site or sites which could accommodate the various programmatic needs.

THE PEABODY INSTITUTE

SUMMARY OF OWNED AND PRINCIPAL LEASED FACILITIES
AND PROPOSED MAJOR RENOVATION AND MAINTENANCE PROGRAMS

AUGUST 1989

Facilities	Appraised Value	Estimated Current Annual Maintenance Cost	Current/Deferred Maintenance Programs	Estimated Revenue Enhancements	Comments
Owned:					
Fine Arts	$13,050,095	0.00	A conservation study has been completed, indicating the number of hours and type of treatment necessary to refurbish various pieces of the art collection	When conservation work is completed the art collection will have a higher value but it is uncertain what the higher value will be	Appraised by Sotheby's December, 1988.

A HYPOTHETICAL DECREASE IN PEABODY ENROLLMENT

(1) Instrument	(2) Fall 1988 Enrollment	(3) Projected Enrollment	(4) Change	(5) Cost per student/ (less) or more expended per department	(6) Fac. Dept. cost 1988-89	(7) Average Student Scholarship/ (Decrease) or Increase
Double Bass	7	12	5	$ 3,793/18,965	$ 22,800	$7,873/39,365
Horn	10	10	-	-	-	-
Trumpet	12	8	(4)	$ 1,300/(5,200)	32,009	3,333/(13,332)
Trombone	4	6	2	$ 1,100/2,200	6,218	4,863/9,726
Tuba	1	2	1	$ 1,350/1,350	1,350	4,940/4,940
Cello	26	24	(2)	$ 4,708/(9,416)	124,440	3,510/(7,020)
Composition	21	18	(3)	$ 3,603/(10,809)	81,320	1,988/(5,964)
Conducting*	17	8	(9)	$ 6,782/(61,038)	95,900	4,857/(43,713)
Mus. Criticism*	2	6	4	NA	60,000	4,380/17,520
Early Music	2	0	(2)	$ 8,530/(17,060)	26,790	NA
	(not listed Fall 1988)					
Ensemble Arts	0	0	-	$40,500/(40,500)	40,500	NA
Chamber Music	1	0	(1)	$ 2,210/(2,210)	NA	NA
Guitar	20	10	(10)	$ 2,989/(29,890)	44,040	2,154/(21,540)
Harp	5	4	(1)	$ 1,600/(1,600)	6,400	5,715/(5,715)
Music Ed (UG) *	34	25	(9)	Classroom Study NA		NA
	(double major)	(double major)			62,600	
Music Ed (Grad)	8	0	(8)	Classroom Study NA		3,233/(25,864)
Organ	10	10	-	-	-	-
Percussion	10	10	-	-	-	-
Piano	116	80	(36)	$ 4,428/(159,408)	380,488	3,513/(126,468)
Viola	9	20	11	$ 5,552/61,072	49,020	4,757/52,327
Violin	42	42	-	-	-	-
Voice	59	50	(9)	$ 4,333/(38,997)	177,135	3,279/(29,511)
Clarinet	14	8	(6)	$ 1,800/(10,800)	31,380	3,347/(20,082)
Flute	21	8	(13)	$ 2,000/(26,000)	41,280	3,006/(39,078)
Bassoon	4	8	4	$ 2,173/8,692	14,500	4,000/16,000
Oboe	5	8	3	$ 1,600/4,800	8,775	6,752/20,256
Saxophone	5	5	-	-	-	-
Rec. Arts*	25	15	(10)	$ 2,778/(27,780)	42,600	3,688/NA*
	Double major	Double major				
Harpsichord	2	2	-	-	-	-
Music History*	1	0	(1)	Classroom faculty	NA	9,700/(9,700)
					$1,349,545	
	493	399		Savings: $440,708	Schol. savings:	$347,987
	- 59 Double majors	- 40 Double majors		Increase: 97,079	Increased Scholarship:	160,134
	434	359		Net Savings: $343,629	Net Scholarship Savings	$187,853

EXHIBIT XIV EXPLANATIONS

<u>Column (1)</u> Lists all major studio departments of The Peabody Institute as of Fall, 1988. Certain ancillary/support departments which are classroom-based (e.g. Ear Training, Keyboard Studies, Liberal Arts, Music History, Music Theory) are not listed since they are utilized by all Peabody students.

<u>Column (2)</u> Peabody's Conservatory enrollment (not including "Prep") for the Fall, 1988 term.

<u>Column (3)</u> A proposed enrollment which is lower than the Fall, 1988 level but still maintains a "critical mass" of students at the Conservatory.

<u>Column (4)</u> Difference in enrollment between Columns 2 and 3. Numbers in parentheses indicate decreased enrollment figures.

<u>Column (5)</u> The first dollar figure indicates the cost per major as calculated by the Peabody Dean's office. The second dollar figure in this column is derived by multiplying the plus or minus change in students in Column 4 by the per major cost.

<u>Column (6)</u> Faculty compensation expended in the 1988-89 academic year exclusive of travel and other costs per department.

<u>Column (7)</u> The first dollar figure is the average scholarship award per student in each department in 1988-89 as provided by Peabody's Director of Administrative Services. The second figure is derived by multiplying the plus or minus change in Column 4 by the average scholarship cost.

Departments marked by an asterisk (*):

- <u>conducting</u>

  The proposed decrease of nine students would not necessarily proportionally decrease the compensation of the one faculty member in this department.

- <u>music criticism</u>

  This currently underenrolled department would not ordinarily have increased compensation costs with a concomitant increase in enrollment.

- <u>music education (undergraduate) and recording arts</u>

  All undergraduate music education majors and recording arts majors are double majors, i.e., those students study an instrument as well as majoring in music education or recording arts. To avoid double counting, those double majors are subtracted from the gross totals in Columns 2 and 3. Since music education majors are taught that portion of their studies in large classes, Column 5 is not applicable in this analysis. The same holds true for <u>music history</u>.

NA = not applicable